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USAID Economic Assistance

to the

Eastern Caribbean, 1978–1994

Volume I

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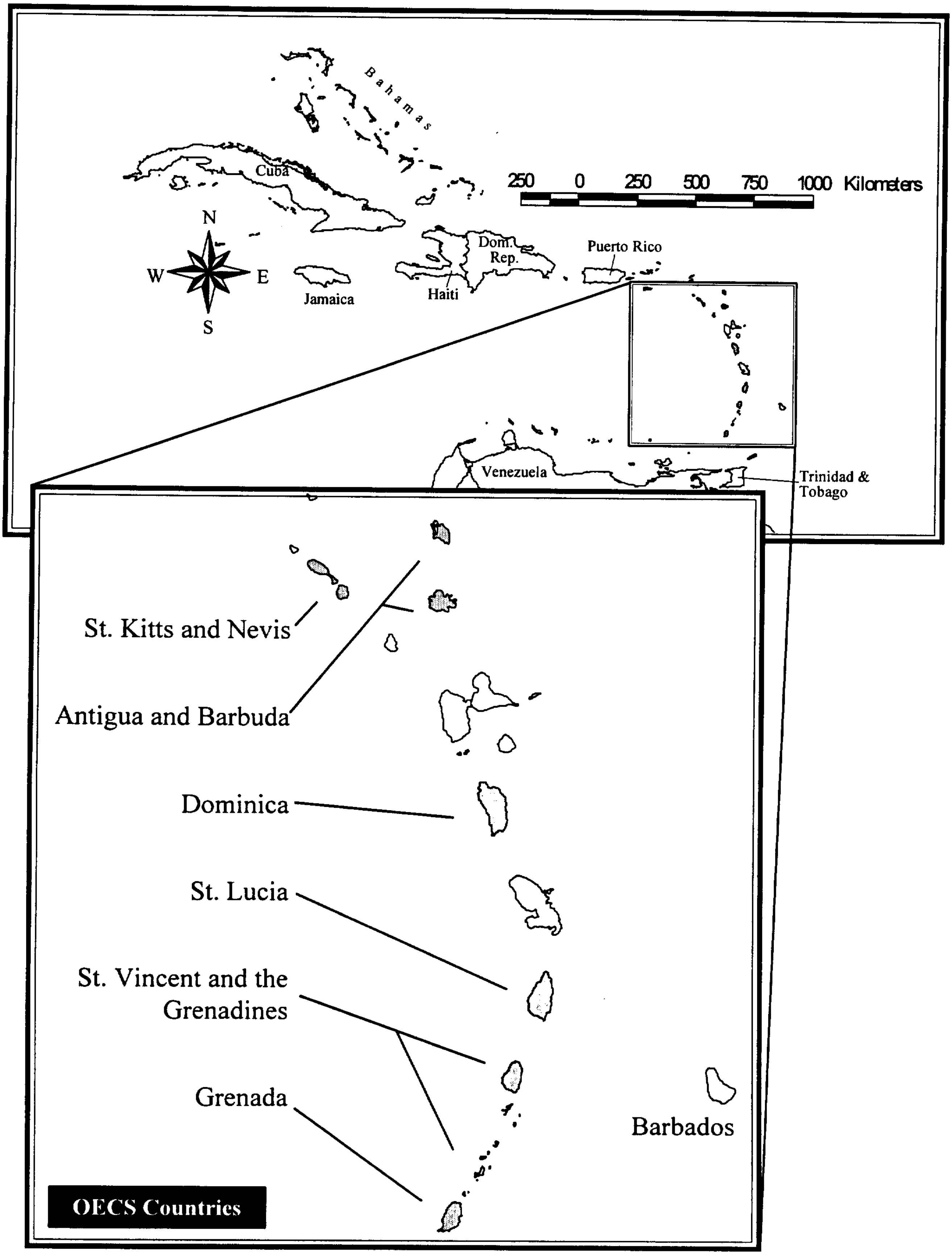
The Eastern Caribbean



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Preface

Since 1978, USAID's Regional Development Office for the Caribbean (RDO/C) has been the primary conduit for U.S. economic support to the member nations of the Organization of Eastern Caribbean States (OECS). In 1993, USAID opted to phase out its Eastern Caribbean activities because of budgetary limitations and a re-prioritizing of the Agency's development agenda and focus. In June 1995, RDO/C commissioned Datex, Inc. of Arlington, Virginia to provide a two-phased comprehensive assessment of the impact of USAID's assistance to the region. This assessment was to cover the period beginning at the time the Mission formally opened in 1978 through the end of 1994.

The Mission subsequently modified the Phase I effort to combine an initial desk study with some of the more essential aspects of the planned Phase II assessment. The intent was to allow RDO/C to circulate this Retrospective to the OECS countries prior to the Mission's closing in June 1996.

From Datex's perspective, this evaluation represents an unprecedented opportunity to trace the role and impact of a USAID Mission as its development agenda evolved over time. At the same time, this task has presented formidable challenges for our consulting team. *USAID---unlike other donors who tend to focus on selective areas of assistance---addressed weaknesses, threats, and opportunities in every major sector and reinforced its resource commitments with policy dialogue at both the regional and national levels.*

One of Datex's first priorities was to re-configure the decision-making environment at critical periods in the program's evolution. Much of the institutional memory of the implementing regional organizations, OECS governments, and the Mission itself had dissipated through retirement, political change, or budgetary constraints. Nevertheless, Datex was able to reconstruct RDO/C's strategic progression by revisiting the political climate, socioeconomic status, and institutional characteristics which influenced the Mission's thinking and approach between 1978 and 1994.

This Retrospective profiles USAID's extraordinary efforts to nurture democracy and economic stability among a newly independent region of small-island economies. In that context, it provides a useful framework from which to examine donor-driven transformation strategies in emerging nations. For the Eastern Caribbean, the study also offers selective strategies for accessing external development resources in an era of diminishing donor support, increasing globalization, and progressive trade liberalization.

Ajit S. Dutta,
President
Datex Inc.

Acknowledgments

Datex and its evaluation team would like to express our thanks to the many individuals who assisted us in this study. This includes current and retired USAID and Department of State officials as well as those representing key Caribbean organizations. It was through the contribution of these people that Datex was able to capture the development setting in which USAID's strategy evolved over the period in question.

The cooperation provided to us by the people at the Regional Development Office was truly exceptional. We want to acknowledge the efforts of Richard Owens, Peter Medford, Sylvia Samuels, Howard Batson, and Jan Harding in supplying both technical insight and administrative support in locating and reproducing critical documents.

We also very much appreciate the time taken by previous RDO/C Mission Directors William Wheeler, Terrence Brown, James Holtwawy, Aaron Williams, and Mosina Jordan to discuss with us their insights into the political, social, and economic framework under which RDO/C was operating during their respective tenures in Barbados.

Datex further owes a debt of graditude to individuals who played key roles in several of the Regional Institutions that were crucial to USAID's success in the region. Several of these individuals have been quoted in the Retrospective.

Three individuals merit special ackowledgement. Darwin Clarke, Special Assistant to the Mission Director since 1992, worked at RDO/C for more than 17 years. It was through Mr. Clarke that we were able to put into perspective many of the activities the Mission pursued and their interrelationship with the strategic direction USAID was taking.

Second, we would like to thank Paul Bisek, RDO/C's Mission Director, for the many hours he spent reviewing earlier drafts and for his value added contributions to the final document. Mr. Bisek's desire to provide the OECS beneficiary countries a comprehensive and meaningful summary of USAID assistance positively influenced the final report. Without his support and leadership this effort could not succeeded.

Last, but not least, was the enthusiastic support Ambassador Jeanette Hyde gave to our evaluation team. Ambassador Hyde took valuable time out of her schedule to meet with us and discuss key elements of the Retrospective. These discussions not only contributed to the technical accuracy of the report, but motivated us to produce the highest quality document possible.

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Executive Summary

Over the last 20 years the United States has been the leading proponent of private sector-led growth in the Caribbean. Through the regional program of the United States Agency for International Development (USAID), the U.S. spent $685 million in the Commonwealth Caribbean (CARICOM) region between 1973 and 1996. The amount does not include direct bilateral assistance during that same period to Commonwealth Caribbean members with their own missions, i.e. Jamaica, Belize, Guyana. Of this sum, approximately $450 million supported economic development in the six less developed Eastern Caribbean island nations of **Antigua, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent**. U.S. assistance to the Eastern Caribbean area was at least twice that of any other bilateral donor.

This Retrospective chronicles USAID's regional program, expectations, influence, and impact on those customer nations and regional institutions who were the recipients of its development assistance from 1978, the year it established the Regional Development Office for the Caribbean (RDO/C) as a full mission, to 1994, when the program entered its close-out phase. It incorporates political, policy, economic, and exogenous factors which drove USAID's agenda and eventually led to the decision to phase out the program by 1996. The report provides an assessment of the Mission's strategies and assumptions and also identifies the extenuating circumstances which influenced the Eastern Caribbean's response to USAID initiatives.

Objectives and Strategies

USAID established a long term presence in the Eastern Caribbean to counter increasing levels of political and economic instability in the region. Key objectives of the economic assistance provided to the English-speaking Eastern Caribbean region at various stages over the life of the program were to:

- Meet basic human needs,
- Strengthen democratic institutions,
- Promote economic growth and self reliance,
- Support regional cooperation,
- Strengthen regional institutions,
- Insure preservation of natural resources,
- Encourage private sector growth, and
- Improve the region's human resources base

At the start of its program in the seventies, the Mission's strategy was to strengthen regional cooperation and the capacity of the beneficiary countries to meet basic human needs. By the mid-eighties the strategy focussed on stabilization and structural adjustment to promote export-oriented, production-based, employment-generating, private sector-led growth and development.

By the early nineties, the Mission was working to support the Eastern Caribbean region's transition to a more competitive world trade environment by improving the business climate and by promoting the development of competitive trade and investment and resource management and conservation policies. Throughout its existence, the Mission's strategy actively supported major U.S. foreign policy thrusts in the region, championing democratic institutions and promoting private sector growth and participation in policy decisions.

Program Profile

USAID's $685 million Caribbean Regional Program consisted of five core portfolios: ***infrastructure, private sector, agriculture, training and human resource development, and health and population projects***. The Mission's program also included ***special assistance to Grenada*** in the aftermath of the 1983 intervention.

The **Infrastructure portfolio** received the largest allocation of USAID funds, accounting for $194 million (28 percent) of total program obligations since 1973. The portfolio's 17 projects consisted of nine loan and eight grant interventions encompassing *housing development, rural development, road networks, alternative energy supply, utility training and manage-*

ment, tourism development, and water and sewerage support activities.

RDO/C spent $170 million on **Private Sector** activities. While most of those funds were used to support private enterprise initiatives, about a third of the sector's 30 projects were designed to address policy issues within the public sector. Seven of the 30 projects were created specifically to respond to the institutional needs of various private voluntary organizations (PVOs).

The Mission's **Agriculture** portfolio utilized $113 million or about 17 percent of total program resources. Twenty-one projects covered a wide range of development themes. The portfolio included *investment finance; agricultural diversification; NGO initiatives in rural development; research and development; and technology transfer*, as well as the thematic area of *institutional strengthening and development*.

Infrastructure	$194 million
Private Sector	$170 million
Agriculture	$113 million
Education/Human Resource Development	$63 million
Health and Population	$36 million
Special Assistance to Grenada	$55 million

RDO/C committed $63 million to ten **Education and Human Resource Development (HRD)** projects. The portfolio represented nine percent of overall program obligations, about half of which were *regional training interventions* channelled through the University of the West Indies, the CARICOM Secretariat, the Caribbean Development Bank, and the Ministries of Education in selective countries. In contrast to the multidimensional attributes of other core portfolios, RDO/C's education and human resource development program focused on selective "niche" opportunities.

The Mission also provided $36 million to 16 projects in its **Health and Population** portfolio. The program accounted for only five percent of total obligations and thus was the smallest of the core portfolios. Like Education/HRD, the Mission adopted a "niche" approach to program opportunities, enabling USAID to make the best use of its limited health budget.

USAID provided $55 million in **Special Assistance to Grenada.** In implementing this program, RDO/C worked to develop Grenada's economic base, a necessary prerequisite for stable democratic development. As such, an emphasis was placed on establishing a strong market-oriented foundation. A key thrust of the Grenada assistance was to re-integrate the country into democratically-rooted regional economic structures. The Grenada special assistance program accounted for eight percent of overall program resources. In addition, Grenada—like other OECS beneficiaries—received bilateral assistance under RDO/C's private sector, agriculture, and infrastructure programs as well, making it the largest single recipient of U.S. assistance in the region.

Policy dialogue, like other aspects of the overall program, became an integral part of RDO/C's development initiatives in the mid-eighties. Prior to that time, RDO/C had been channelling most of its policy advice through the Caribbean Group for Cooperation in Economic Development (CGCED).

At the heart of USAID's concern over structural economic issues was the belief that each country should articulate a "comprehensive development strategy" designed and agreed upon jointly by the public and private sectors. RDO/C's program hinged on substantial new private-sector investment. Thus, emphasis was placed on convincing the island nations to rethink their investment processing systems and market intervention policies, including the issue of privatization of key enterprises owned by the public sector.

Program Implementation

USAID's program evolved in three phases. During the Phase I period from 1978 through 1983, the Mission concentrated on **Political and Economic Stabilization**. In Phase II, from 1984 through 1991, RDO/C's major thrust was on **Economic Growth**. Finally in Phase III (1992–94), the Mission promoted key policy prerequisites for the region's survival under **Global Competition.**

Phase I: Stabilization (1978–1983)

The Caribbean regional program addressed the development needs of both the greater Caribbean Community (CARICOM) and the Eastern Caribbean subregion during Phase I. Approximately equal priority was given to each region. **Between 1973 and 1983, USAID committed $347 million to 61 projects.** Of this sum, $274 million was spent on regional projects. The rest was allocated to the first set of country-specific projects as the Mission—in response to specific needs—moved toward a stronger bilateral focus at the end of Phase I. The program began with an institutional focus on infrastructure and then branched out, again institutionally, into agriculture, education, and human resource development.

Phase II: Economic Growth (1984–1991)

Two factors drove USAID's strategy in Latin America and the Caribbean in the mid-eighties. First, the United States had adopted a stronger foreign policy in response to an upsurge in non-democratic government, leftist ideology, and terrorist actions around the world. The second was a foreign policy decision to showcase the Caribbean Basin as a model of democratic, private sector-led economies capable of competing successfully in international export markets. These decisions led to the unveiling of the **Caribbean Basin Initiative (CBI)** at the Organization of American States (OAS) in early 1982. The Grenada intervention in October 1983 was consistent with this foreign policy stance.

In Phase II, RDO/C moved away from a focus on the Greater CARICOM region, instead concentrating on the six less developed countries of the Organization of Eastern Caribbean States. **Between 1984 and 1991 USAID obligated $318 million to 52 new projects.** Within RDO/C's program, private sector projects were twice that of any other portfolio, reflecting the emphasis placed on investment driven by the Caribbean Basin Initiative and other export-led opportunities.

Phase III: Global Competition (1992–1994)

The most noticeable feature of USAID's Eastern Caribbean program in the 1990s was the sharp reduction in resource flows and the downsizing of the Regional Office beginning in 1992. **In this three year period, the Mission's budget was reduced so drastically that RDO/C could only obligate $20 million to five new projects.** In November 1993, USAID formally announced that the RDO/C Mission in **Barbados** would be closed in 1996.

The decision to phase out USAID assistance to the region was precipitated by a combination of budgetary, global, hemispheric, and program considerations. RDO/C's downsizing was part of the Agency's decision to close 21 field missions around the world. By the early nineties USAID's resources were being stretched too thinly to cover both developing nations and the former communist bloc countries.

Program Highlights

RDO/C's programming methods and management style varied considerably during its 18 year existence: conformist and institutionally focused in its early years; assertive and creatively independent in its growth years; and more patient and realistic during its final years in the region.

Phase I

During this initial phase, RDO/C was able to achieve its primary goals of strengthening democracy and meeting basic human needs. Accomplishments and other key features of the program between 1978–1983 are summarized as follows:

- **U.S. policy was successful in restoring democratic government in the Eastern Caribbean.** In combination with the Administration's assertive foreign policy and the Grenada intervention, USAID development assistance played a key supporting role in this achievement.

- **RDO/C's basic human needs program and its rehabilitation of productive infrastructure helped the OECS countries minimize the negative spillover effects of the 1970s.** These programs reduced political instability and social disillusionment by creating employment and upgrading social services in rural communities.

- **The Mission was instrumental in establishing the Caribbean Group for Cooperation in Economic Development (CGCED).** That initiative led to a coordinated development approach among donors, regional institutions, and the OECS member states.

- **RDO/C's stabilization support to the larger CARICOM Countries between 1978 and 1983 helped alleviate balance of payments problems,** providing these countries the resources needed to undertake essential development programs.

Phase II

In Phase II, from 1984–1991, the U.S. Government's philosophy of private sector-led growth heavily influenced USAID's Eastern Caribbean program. During this period, RDO/C committed three-quarters of its resources to promoting export growth and private sector investment. As a result, the following accomplishments were realized:

- **Conceptually, USAID's most notable accomplishment was that it helped change the OECS' statist, public sector orientation to a more balanced private and public sector approach to economic development.** The RDO/C program led to far-reaching changes in economic priorities in Antigua, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent.

- **The Caribbean Basin Initiative brought trade and investment dimensions to the forefront of economic development planning in the Eastern Caribbean.** The CBI package legitimized the concept of private sector-led economic growth by emphasizing international competitiveness, prudent economic management, and political stability. Moreover, the Initiative paved the way for much closer cooperation on hemispheric initiatives between CARICOM countries and the rest of the Americas.

- **USAID's concentration of resources on private sector development, the productive sectors, and economic management led to significant increases in investment, export earnings, and employment in the OECS countries.** Economic gains between 1987 and 1991 included new investment of $57 million; a doubling of exports to $67 million; the creation of 6,000 short and long term jobs; and an $11 million annual increase in value added to manufacturing.

- **The demonstration effects of RDO/C's investment promotion programs stimulated private sector interest in new niche markets,** many of which were just emerging as opportunities during the eighties.

The program was not without flaws or inconsistencies. RDO/C's assertive style, penchant for innovative solutions and desire to fill development "gaps" resulted in a number of stand-alone projects, some of which were not fully endorsed by the public sector. Projects like the Caribbean Agricultural Trading Company (CATCO), the Caribbean Financial Services Corporation (CFSC), and the High Impact Marketing and Production Project (HIAMP) were constrained by their own independence and had to function as appendages to established implementing structures. Only CFSC succeeded in assimilating its activities into the institutional framework of the sector it served.

Project autonomy also isolated key parts of RDO/C's policy agenda. Consequently, the Mission had limited success convincing governments to eliminate monopolist marketing boards or preferential treatment for several key export industries, even though reforms in those areas clearly could have helped the region's investment environment.

Phase III

RDO/C's goals and strategies during Phase III reflected a more patient approach to economic development than in the prior eight years of assertive program design and implementation. As it did in Phases I and II, the Mission developed themes and priorities which were relevant, focused and consistent with U.S. foreign policy. In Phase III, the Mission's priority was to help the OECS countries adapt to the realities of global competition. The other strategic objective for this phase was to improve the management of natural resources.

Given the drastic cutbacks in the funding of the nineties, the main features of the Phase III program could not be accomplished. The Mission was simply denied the funding and the time it needed to accomplish its stated goals. The funding cuts also forced planned new projects to be abandoned. Nonetheless, early signs of the switch in strategy toward promoting agricultural exports though a regional institutional framework have been very positive. Similarly, the private sector's endorsement of the Centre For Management Development at the University of the West Indies, if sustained, can be expected to strengthen the private sector's capacity to exploit future improvements in the investment climate.

Only the *Environment and Coastal Resources (ENCORE) Project,* which was developed in response to the new Phase III environmental strategic objective, will continue beyond the close of RDO/C, being run by the G Bureau.

Overall Impact of USAID Assistance to the Region

USAID's $685 million program between 1978-1994 was highly successful on the whole. The RDO/C program took on unprecedented challenges, covered diverse issues, and forced governments, donors, and institutions to rethink and restructure their perceptions and approaches to economic development.

Conclusions about overall impact can be summarized as follows:

- **The Program was very successful in its first Phase, i.e. between 1978 and 1983.** RDO/C directed its programs at urgent constraints and played a pivotal role in helping the OECS and the larger CARICOM countries address basic development deficiencies at the time.

- Commendable accomplishments during Phase I were the **strengthening of regional institutions, support for post-OPEC economic recovery in the mini-states, and the creation of the Caribbean Group for Cooperation in Economic Development (CGCED).**

- **USAID programs had a lasting "demonstration effect" on private sector development.** This led to the private sector's use of more entrepreneurial approaches to new business opportunities. To a large extent, this change was engendered by RDO/C's investment promotion and productive sector programs.

- USAID helped the OECS governments strengthen their capacity to address emerging trade, investment, and integration issues by **improving economic management systems in the public sector** and by **helping the public sector rethink its conventional approaches to economic development.**

- **RDO/C was able to influence both the private and public sector's thinking on the importance of human resources development.** The Mission created a growing awareness and commitment to business management and skills training.

- **The Mission made effective use of health, education, and infrastructure programs** to assist the region with short and longer-term improvements in those areas.

- **The program's impact on economic growth was unquestionably positive,** especially during the 1980s. **However, RDO/C's targets were perhaps too ambitious** given that the region did not have the capacity at that time to respond to the sudden trade and investment opportunities emerging out of the Caribbean Basin Initiative.

- **The Mission's productive sector programs opened up new prospects for expanding the region's export base.** Those programs--particularly the interventions directed at manufacturing investment and employment generation--created business opportunities and increased jobs and export earnings.

- **USAID's investment promotion efforts showed that the region needs to place much more em-**

phasis on streamlining its investment processing systems and on adopting cohesive economic policies that favor export-competitive industries.

- **USAID's export thrust identified the types of changes required to ensure that the region would be able to continue to attract and stimulate new investment.** In that context, the region's lack of success in attracting foreign investment in the nontraditional agricultural sector served to confirm its nascent status and limitations in that area. These types of concerns have forced OECS governments, particularly in the Windward Islands, to re-assess the appropriateness of their longer-term productive sector strategies and have led to more realistic perspectives on future growth possibilities.

- **RDO/C's efforts to encourage the OECS countries to adopt market reforms were only marginally successful.** This issue has been a key priority of the Mission's program in the nineties but was severely compromised by USAID's decision in 1993 to phase out RDO/C operations by 1996.

- **The "fast track"approach between 1984 and 1991 helped the region establish a base for export-led growth in the second half of the Eighties** and laid the foundation for stronger private sector initiatives in selective niche areas in the early Nineties.

In summary, RDO/C achieved exceptional results in some areas; generally positive change with other initiatives, and only marginal impact with other priority issues.

Nevertheless, the Mission's withdrawal should not diminish the significance of adopting reforms, or the increasingly urgent need to develop and introduce strategies that strengthen the region's ability to improve its export competitiveness as it enters the 21st Century.

1. Introduction

This retrospective was commissioned for three reasons. First, RDO/C wanted to give beneficiary countries a comprehensive summary of the assistance provided by USAID throughout its 18 year presence in the region. Second, the Mission wanted to take an objective look at what it had accomplished and how it could have improved its support to the region during that period. The third motive was to sensitize the Agency and Missions in other parts of the developing world about lessons learned from RDO/C's extensive involvement in the Eastern Caribbean.

This assessment examines RDO/C's program, including its expectations, its influence, and its impact on the economic development of the OECS region. The Retrospective incorporates political, policy, economic, and exogenous factors which drove USAID's agenda and eventually led to the decision to phase out the program by June 30, 1996. The report also provides an assessment of the Mission's strategies and its underlying assumptions, addressing many of the extenuating circumstances which influenced the Eastern Caribbean's response to USAID initiatives.

1.1 Approach

Datex adopted a multi-faceted approach to this study. For a global perspective, we reviewed and assessed the relevance of the major themes, priorities, and institutional mechanisms used to facilitate program development. Key issues included:

- the extent to which assistance was targeted at the **primary opportunities and threats** the beneficiary countries sought to address;
- the effectiveness of the ensuing **policy dialogue;**
- the degree of **institutional sustainability** achieved; and
- the **socioeconomic benefits** attained by the region during this period.

At the programmatic level we examined the evolution of RDO/C's development strategy and integrated the effects of key regional and global trends on the program's overall effectiveness. We also reviewed the various sector portfolios to examine longer-term investment, employment, and socioeconomic effects.

1.2 Content

This report consists of a series of progressive "building blocks" which attempt to put the RDO/C program in perspective.

Section 2 recreates the development "setting" in the 1970s that precipitated RDO/C's presence in the region. Section 3 provides profiles of the Mission's program and portfolio. Section 4 contains findings and conclusions about the relative impact of the assistance provided during each phase of the program. Section 5, in addition to reviewing overall impacts and documenting Lessons Learned, offers the OECS countries some strategic ideas for targeting external resources in the post-USAID era.

The Retrospective incorporates political, policy, economic, and exogenous factors which drove USAID's agenda and eventually led to the decision to phase out the program by June 30, 1996

2. The Development Environment in the 1970s

A combination of trends and sovereign and ideological changes characterized the OECS environment in the 1970s. These included global recession, historical investment patterns, and the retention of institutional and trading legacies of the colonial past. During this period the islands became independent with basic free market institutional systems already in place. However, world recession derailed development initiatives throughout the subregion and, apart from St. Lucia, the islands experienced negative economic growth in the 1970s.

This section of the Retrospective recreates the setting and circumstances which led to USAID's physical presence and targeted assistance in the Caribbean region. It revisits the main characteristics of the Eastern Caribbean subregion and the larger members of the Caribbean Community (CARICOM). It also summarizes key aspects of the economic and political setting and the respective roles of the public and private sectors at the time RDO/C was established as a formal mission in Barbados in September, 1978.

The smaller Eastern Caribbean countries with a collective population of only 530,000 lack the land mass, mineral resource base, economies of scale, and institutional capacity of the larger MDCs.

2.1 The Caribbean Community

From its inception in 1973, the Caribbean Community (CARICOM) was a unique combination of two groups of countries at different stages of economic and political evolution. The first group comprised the larger, more populated major developing countries (MDCs) of:

- Jamaica (2.1 million)
- Trinidad & Tobago (1.1 million)
- Guyana (800 thousand)
- Barbados (250 thousand)

These countries attained independence in the sixties and were institutionally stronger than the second group which consisted of the less developed countries (LDCs) of:

- Antigua
- Belize
- Dominica
- Grenada
- St. Kitts-Nevis-Anguilla
- St. Lucia
- St. Vincent

LDC independence began with Grenada in 1974 and was completed by St. Kitts in 1983. Table I, *Basic Economic Indicators of CARICOM Countries in the 1970s,* highlights some distinct differences between the MDCs and LDCs as well as the differences among the LDCs themselves.

Jamaica, Guyana, and Trinidad & Tobago are natural resource economies distinguished by capital intensive investment, international market dependency, and some economic and social distortions of transitional economies. The smaller Eastern Caribbean countries with a collective population of only 530,000 lack the land mass, mineral resource base, economies of scale, and institutional capacity of the larger MDCs. Thus, the LDCs were faced with much higher production costs, putting them at a competitive disadvantage in international markets.

On the positive side, the smaller islands exhibited more equitable ownership of national resources, primarily due to historical land distribution policies. The subregion also displayed greater economic resilience than its larger neighbors, partly because smaller size re-

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quires lower levels of capital spending on infrastructure and social support programs.

With the exception of Belize, the smaller states pursued mutual interests under the framework of the East Caribbean Common Market (ECCM). Initiated in 1968, that arrangement of functional cooperation was upgraded to the Organization of Eastern Caribbean States (OECS) in 1983.

The seventies were characterized by a quadrupling of oil prices, substantial increases in prices of essential imports, and a severe contraction in world demand for the region's primary exports, including tourism.

2.2 East Caribbean Common Market Profile

Within the Eastern Caribbean area, two island groupings coexisted: the four multi-sectoral economies of the **Windward Islands (Dominica, Grenada, St. Lucia, and St. Vincent)** in the South and the once monocultured and now tourism-focussed **Leeward Islands of Antigua and St.Kitts-Nevis** in the North. The Windwards derive a significant portion of their wealth from agriculture exports (bananas, nutmeg, cocoa) while the two Leewards generate more of their export earnings from the hotel sector. Communities on the southern islands are more dispersed but exhibit more equitable income distribution than their northern counterparts. The Leewards, however, generate slightly higher per capita incomes than the Windwards.

An easing of the international recession and modest improvements in economic performance in donor countries helped stimulate moderate growth between 1976 and 1978.

The seventies were characterized by a quadrupling of oil prices, substantial increases in prices of essential imports, and a severe contraction in world demand for the region's primary exports, including tourism. This reversed most of the initial economic gains of the LDCs as well as those of the larger CARICOM countries.

In the Eastern Caribbean area, per capita income was generally higher than the rest of the developing world. Nevertheless, the economies were, at best, on the verge of economic disequilibrium that was only avoided by substantial capital inflows from donor countries.

The macroeconomic problems of the Eastern Caribbean islands were pervasive: rising unemployment, chronic weaknesses in public finances, and declines in agricultural productivity. In **Antigua**, long term debt reached 43 percent of Gross Domestic Product (GDP); in **St.Kitts-Nevis**, unemployment surpassed 20 percent; in **St. Lucia**, retail prices doubled between 1972 and 1976; and in **Dominica**, the current account deficit rose to seven percent of GDP.

Another characteristic of the region's condition was its heavy dependence on external financial support. In the 1970s, consumption was absorbing in excess of 100 percent of GDP so that private and public savings fell far short of public sector investment needs. In 1978, the World Bank estimated that donors financed more than 80 percent of the islands' public sector investment via external grants or highly concessional loans[1].

An easing of the international recession and modest improvements in economic performance in donor countries helped stimulate moderate growth between 1976 and 1978. Nominally, **St. Lucia's** economy grew by 11 percent in 1978, **St. Vincent's** by 13 percent, and **Antigua's** by 5 percent, while the other three islands were able to achieve GDP increases of at least 5 percent in 1978[2].

However, the inflationary impacts of a 48 percent OPEC price increase reversed these gains in 1979 and exacerbated the fiscal and trade deficit problems of the six island states. Given the inherent limitations of a narrow tax base, the small states had to increase their external debt to finance essential infrastructure programs. By 1981, the trade deficit, at EC$823 million,

Table I
Basic Economic Indicators of CARICOM Countries In The Mid-1970s

Country	*Area Sq. Km*	*Pop. (000) mid-1977*	*GNP '77 US$ mil.*	*GNP '77 Per Capita*	*Real GDP % Growth*	*Agriculture : % of GDP*	*Exports: % of GDP*	*Imports: % of GDP*	*Ag. Exports: % of GDP*	*Tourism: % of GDP*	*Ag. Export as% Total*
LDCs:											
Antigua	442	78	60	860	-3.7	4	64	138	n/a	11	3
Domnica	787	77	30	400	- 4.1	33	37	69	28	2	75
Grenada	344	105	50	470	- 3.2	29	34	66	31	21	96
St. Kitts	352	50	30	610	1.6	14	38	69	n/a	5	64
St.Lucia	616	118	70	560	0.7	17	34	94	23	9	68
St.Vincent	384	103	30	320	- 2.2	12	25	90	15	8	59
Belize	22,966	130	100	750	4.7	31	59	71	49	n/a	90
MDCs:											
B'dos	430	248	440	1770	2.6	7	26	71	8	25	31
Guyana	215,000	817	430	510	0.4	30	80	76	50	n/a	64
Jamaica	11,424	2,101	2230	1060	- 2.0	8	27	38	7	4	27
T & T	5,128	1,118	2,930	2,620	1.5	6	89	74	6	5	6

1. LDC Highlights:

- ST.KITTS and ST. LUCIA were the best overall performers in the Leedward and Windward Island territories.
- BELIZE, the largest member of the LDC group, outperformed the other six territories in GDP growth in the Seventies.
- GRENADA was more heavily dependent on agriculture than anyone else but also had the most diversified income base.

2. MDC Highlights:

- GUYANA, the largest country, was more exported-oriented than <u>all</u> its CARICOM neighbours but also was the poorest MDC.
- TRINIDAD was the most industrialised and the most affluent. BARBADOS was the most prudently managed CARICOM economy.

3. Sources and Reference:
World Bank Atlas, 1979 World Bank;
[illegible]: *The Integration Experience*, S. Chernick in 1978; *Caribbean Integration: The Politics of Regionalism*, W. A. Axline in 1979.

was four times its 1972 level. Likewise, external debt, at $194 million, was two and a half times higher than the LDC's 1977 exposure.

2.3 Political Environment

The turbulent economic events of the decade exposed the fragile nature of the sub-region's democratic structures at a time when the islands possessed no more than fledgling institutional mechanisms to cope with such problems. Leftist ideology, entrenched in Jamaica and Guyana and visibly promoted by Cuba and Nicaragua, was being openly embraced in **Grenada** and was rearing its head in **Antigua, St. Lucia, and St. Vincent.**

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The region's political instability became a major hemispheric concern when socialists ousted Grenada's elected Government in 1979 and began to instigate similar "solutions" among leftist factions in the other islands. Nonetheless, the other Eastern Caribbean countries had clearly opted to maintain western-style democracies. They were privately critical of Grenada's unconventional actions, in part because the situation exposed weaknesses in their own political systems and because the situation compromised the region's attractiveness to foreign investors.

2.4 The Public Sector

The priorities of the respective Governments were to stabilize the economy, improve public sector management, and create employment. However, the overly centralized Westminster system in place in the island governments and shortcomings in public administration skills of civil service managers hindered implementation of new ideas and day-to-day efficiency. Also, the civil service system was much better equipped to perform regulatory and administrative functions than it was to oversee national development.

With literacy rates of at least 85 percent, *education* was well managed, but tended to stress professional careers over technical vocations. *Health* services were also reasonably effective although there was a disproportionate emphasis on the suppression of communicable diseases. The health sector, like other areas of the public service, suffered from a highly centralized and thin management structure.

Nationalization of utility corporations reflected the global LDC trend of state intervention in economic development. In the Eastern Caribbean, the rationale behind that policy was not just ideological. It was a genuine response to national concerns about maintaining services that the United Kingdom saw as "excess baggage" and for which the private sector was ill-equipped to handle.

However, most governments could not maintain essential infrastructure because of fiscal constraints. Moreover, the public sector's human resources deficiencies and institutional weaknesses led to an unreliable supply of electric power, telecommunications problems, water shortages, and deteriorating transportation networks in most of the new island states.

Most governments could not maintain essential infrastructure because of fiscal constraints.

These setbacks occurred at a time when the Eastern Caribbean countries were trying to make good on pre-independence commitments to provide efficient nationwide services. But despite those intentions, the post-OPEC macroeconomic fallout of fiscal deficits, inflation, and growing trade deficits imposed onerous demands on Governments. In addition, the brain drain of the 1970s—to metropolitan countries, to the larger MDCs in the region, and to the private sector within the OECS countries themselves—compromised the public sector's capacity to cope with these difficulties.

2.5 The Private Sector

The Anglophone Caribbean's entrepreneurial base consisted of entrenched expatriate-owned monopolies, indigenous commercial traders, state corporations, family-owned firms or proprietorships, and *guerilla* micro enterprises[3].

The business sector's most discernible trait was its progression from a colonial **plantocracy** *to a home-grown* **trading** *elite.*

The scope and depth of private sector activities in the CARICOM states mirrored the different stages of MDC and LDC development. In the larger countries, economic activity was more diversified with an appropriate infrastructure to support that diversity. In Jamaica, Trinidad & Tobago, and **Barbados**, light manufacturing and tourism complimented agricultural and commercial activity. The latter two sectors had formerly dominated the economies of these nations. In the process, corporate and partnership forms of business organization had gradually replaced single family-owned proprietorships as the driving entrepreneurial force in these countries.

In contrast, the entrepreneurial base of the smaller LDCs was concentrated in small scale labor-intensive agriculture and family owned firms and sole proprietorships. Outside of agriculture, most entrepreneurs were involved in trading and distribution of essential imports. While tourism was emerging as a potential high growth industry, initial investment in that sector was driven by foreign firms lured to the region by the "invitation" model of generous tax holidays and duty free concessions.

The business sector's most discernible trait was its progression from a colonial *plantocracy* to a home-grown *trading* elite. By the early seventies the sector had lost the limited *agro-industrial* capacity its predecessors once possessed. Consequently, there was a dearth of technical skills and inadequate industrial services to support new manufacturing ventures. Moreover, European companies exclusively controlled commodity marketing so that the private sector's capacity to venture into export markets was almost nonexistent.

Despite such obstacles, earlier MDC success in regional trade, combined with Common Market "set asides" for the LDCs, heightened private sector interest in similar import substitution activity. This led to selective forays in manufacturing in **Dominica** (soaps, paints), **St. Lucia** (margarine and packing materials), **St. Kitts** (footwear) and **Grenada** (furniture and condiments). The region's banking sector did not share this optimism and chose to maintain tight control over its long-term loan portfolios. The conservatism of the banking industry resulted in a persistent shortage of investment capital and financial instruments for the manufacturing, agribusiness, and tourism sectors.

Another significant feature of the period was the absence of private sector involvement in forging national development policies and strategies. The prevailing belief was that Government was singularly responsible for essential services, socioeconomic priorities, and infrastructure. This ambivalence was deliberately self-serving: what most of the business community wanted was to be left alone to function without excessive taxes, bureaucratic regulations, or political interference.

Further, the prevailing government view was that the private sector's primary role was pay taxes and to "top off" the public sector's mandate to create full employment. Consequently, economic policies favored both *public* sector and *foreign* investment over the expansion of local business. Also, in most islands, the state was involved in trading activities through marketing boards that imported and marketed essential commodities like rice and sugar in direct competition with the private sector. This encroachment on the business sector led to occasional confrontations between the two groups and inhibited public/private sector collaboration on economic development issues.

2.6 Economic Integration

The CARICOM categorization of MDC and LDC groups stands up to objective examination whether the classification is by size, GDP, resources, or population (Table I). However, this tended to lead to unrealistic LDC demands for direct financial and technical assistance from the MDCs.

Only oil-rich Trinidad & Tobago was relatively well off with net foreign assets increasing more than 40 percent between 1977 and 1978.

The reality was that the larger countries were still underdeveloped themselves and were therefore ill-equipped to support their smaller partners. As an example, in 1978 Jamaica had *negative* foreign assets of J$450 million. Both Jamaica and Guyana had negotiated balance of payment support, structural adjustment financing, and standby arrangements with the International Monetary Fund (IMF). Only oil-rich Trinidad & Tobago was relatively well off with net foreign assets increasing more than 40 percent between 1977 and 1978.

Together with high expectations, the LDCs perceived that a MDC "favored status" policy existed within CARICOM. A "small island" sensitivity and the failure of the larger countries to honor a number of intra regional trade concessions to the East Caribbean Common Market territories reinforced these views. The LDCs also mistakenly argued that the MDCs had priority access to the Caribbean Development Bank, the region's leading multilateral conduit for aid flows to its member-countries[4].

2.7 *Entré* to the 1980s

The 1970s epitomized the enthusiasm of the new island states. Despite setbacks, weaknesses, and a chronic dependency on external flows, Eastern Caribbean countries pursued agendas that were both independent and compatible with CARICOM integration.

Despite setbacks, weaknesses, and a chronic dependency on external flows, Eastern Caribbean countries pursued agendas that were both independent and compatible with CARICOM integration.

Paradoxically, the economic decline in the seventies forced the LDCs to intensify their efforts to secure more external support after independence.

By the end of the decade, the Eastern Caribbean had begun to focus on a two-fold survival strategy of 1) maximizing economic support from receptive donors; and 2) maintaining European market protection for traditional exports. For the 1980s, the priorities of the island nations were to alleviate their precarious fiscal positions, strengthen institutional capacity, explore diversified trade options, improve essential services, upgrade infrastructure, and increase employment.

For various reasons, examined in Section 3, these issues became the cornerstone of USAID's early initiatives in the Eastern Caribbean.

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1. CARICOM's Less Developed Countries: *A Review Of The Progress of the LDCs under the CARICOM Arrangements*. Swinburne Lestrade. Institute of Social and Economic Research (Eastern Caribbean) 1981.

2. *The OECS Economies in the 1970s*. Arnold McIntyre. Institute of Social and Economic Research (Eastern Caribbean). 1986.

3. Interpreted from *Entrepreneurship in the Caribbean: Culture, Structure and Conjecture 1994*, Chapter 2: The Role of the Entrepreneur in the Development Strategy of the Caribbean. George K. Danns. Partly out of deference to the region's new home grown elite, the *guerilla* micro enterprise was not a formidable force in the ECCM area in the 1970s.

4. The LDCs actually got at least 50 percent of the CDB's resources during the 1970s. This is confirmed by Lestrade (*CARICOM's Less Developed Countries);* Chernick *(The Commonwealth Caribbean: The Integration Experience)* and by the CDB *(The Caribbean Development Bank: The First Ten Years)*.

3. The Regional Development Office for the Caribbean (RDO/C)

In the 1970's, USAID established a long term presence in the Eastern Caribbean. A key reason for this decision was to help counter increasing levels of political and economic instability in the region. USAID's first five projects were developed between 1973 and 1977 from Washington. In 1976 the Agency opened a USAID Affairs Office in Barbados. In September, 1978, the Affairs Office was converted to Regional Mission status and the Regional Development Office for the Caribbean was officially opened.

At its zenith in the late eighties, RDO/C had more than 110 staff and an active portfolio of over 50 projects valued at almost $400 million.

In its first year RDO/C initiated 11 new agriculture, infrastructure, health/population, and human resources development (HRD) projects. At its zenith in the late eighties, RDO/C had more than 110 staff and an active portfolio of over 50 projects valued at almost $400 million. Between 1973 and 1994 USAID obligated US$685 million to regional development assistance. (Chart I).

This section of the Retrospective discusses the Mission's role in its political and developmental context. It links RDO/C's *raison d'etre* to the U.S. Government's hemispheric agenda, to the expectations of the beneficiary countries, and to key issues and events that influenced policy content and program development. From a conceptual viewpoint, Section 3 provides a gateway into RDO/C's development themes, goals, priorities, and strategies and touches on the contributions made by other donors during the same period.

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Finally, it explains RDO/C's role in facilitating a coordinated approach to the economic development of the Eastern Caribbean nations and to the region as a whole. This includes selected analyses of the Mission's program portfolios and the allocation of resources among the OECS member states.

3.1 Program Framework

RDO/C set out to develop a multi-dimensional program that would consistently address the United States' pressing foreign policy concerns about political instability. In so doing the Mission's program also addressed the constraints to growth being faced by countries in the region. Three core themes permeated RDO/C's program during the period studied.

1) Democracy
2) Basic Human Needs
3) Institutional Development

Political Strategy

The United States employed a three-pronged strategy to counter political instability in the region. First, it isolated leftist governments in Cuba, Nicaragua, Guyana, and Grenada. Second, it used political *persuasion* and offered "basic human needs" support for democratically elected governments with moderate brands of socialism (e.g. Jamaica). Third, it developed strong political relationships and initiated broad economic support programs with countries that espoused democratic principles and were aligned with the U.S. and its Western allies. These countries included Barbados, Dominica, and the other democratically elected governments of the Eastern Caribbean. Initiated during the Carter administration, this strategy intensified in the early eighties under the Reagan administration.

Program Rationale

RDO/C hinged its program on two fundamental tenets: 1) that USAID would reinforce the region's commitment to democracy to ensure substainability in the long term and 2) that USAID would, in support of its first priority, provide comprehensive development assistance to help the region overcome structural, sectoral, and policy constraints to economic development.

In its early years, RDO/C embraced the findings of the World Bank's Caribbean Regional Study of 1975 which provided a comprehensive appraisal of the economic weaknesses and development needs for the area[5]. The World Bank identified deteriorating infrastructure, human resources and skills deficiencies, continuing fiscal deficits, and balance of payment disequilibria as the region's primary deficiencies. *Other constraints included persistent inflation, weak economic management, high unemployment, an inward looking private sector, and a disproportionate dependency on traditional export crops.*

By the mid-eighties, RDO/C, in collaboration with the six beneficiary countries of the OECS and key regional organizations, had reexamined most of these issues and had reached a consensus that the Mission should address the following impediments to growth over the next decade:

- **Poor Infrastructure**. Although the member governments of the OECS and the main international donors had put considerable resources into infrastructure development between 1978 and 1982, much of that infrastructure had not been maintained or had been destroyed by hurricanes. In addition, the islands' infrastructure needs were expanding due to increasing urbanization and growth in the manufacturing and tourism sectors.

- **Diseconomies of scale**. Limited investment capacity, poor market linkages, and a dearth of technical know-how in the local business community inhibited export-led growth and employment generation. The emerging non-traditional sectors had neither the financial capacity nor the economies of scale necessary to penetrate international export markets.

- **Weak natural resources base**. OECS production was neither unique nor specialized. The countries produced traditional commodities that other LDCs—particularly in Latin America and Africa—were already providing. The region's competitors had similar ecological conditions, better infrastructure, and lower labor costs.

- **High-cost/low-output agriculture**. For most crops, yields were low and unit production costs relatively high. Modern technology was not being employed effectively and productivity gains were difficult to attain due to high labor costs, topography limitations, and small farm size. Without a stronger external "push", the agriculture sector was unlikely to circumvent these constraints on its own.

- **Weak linkages between enclave and domestic sectors**. There were few linkages between the foreign enclave sectors—who import, transform, and re-export—and the domestic enterprises or growers. The two groups functioned quite differently and for the most part had not established mutually-profitable commercial ties.

- **Underdeveloped public management**. Public ownership was generally synonymous with inefficient money-losing enterprises. Efficient public managers were thinly spread across government responsibilities. This caused public sector services to be more costly to produce than similar services offered by the private sector.

- **Limited policy reform**. Public policy had not kept pace with OECS governments' stated commitments to private sector-led development. The tax structure, policies, incentives, licensing requirements, and import-export controls were not yet conducive to facilitating the private sector's maximum growth potential.

- **Weak human resources base**. There were limited on-the-job and worker skills in the growth sectors of the economy. This deficiency was impeding private sector development and worker productivity and making locally produced goods and services noncompetitive.

In addition to these points, USAID argued that "structural misadjustment" needed to be corrected so that the islands' main productive sectors (agriculture, tourism, and manufacturing) could attract sufficient investment to drive export-led growth.

Other supporting arguments for the kind of program RDO/C advocated were that a) sugar and bananas were not always profitable; b) the state was still heavily intervening in economic matters in most of the LDCs; c) tourism investments needed national planning; and d) the region's export competitiveness was being compromised by an over-valued exchange rate.

RDO/C's scope extended well beyond that of most USAID Missions.

The Mission contended that employment growth was becoming a critical priority and that new jobs would depend on private sector investment in new areas. RDO/C argued that unemployment could again become a major problem because the traditional emigration "escape valve" was now closed and because the LDCs were heavily dependent on one or two primary productive sectors (tourism and agriculture).

RDO/C attempted to promote a truly regional approach to problems faced by the countries it serviced.

Program Scope

RDO/C's scope extended well beyond that of most USAID Missions. Unlike others, its sphere of activities embraced a larger region (CARICOM), a sub-region (the OECS), plus six countries on an individual basis (the OECS states). Typical *regional* offices—for example, the Regional Economic Development Services Office (REDSO)/East and West in Africa—focus primarily on supporting bilateral programs out of a regional office. Conversely, RDO/C attempted to promote a truly regional approach to problems faced by the countries it serviced.

Moreover, the Caribbean Office assumed a "front seat" on regional development by virtue of its political interest, magnitude of funding, and program coverage. In contrast, in many parts of Africa and Asia, USAID programs are subordinate to those of other bilateral donors. Those programs are typically more focused and selective than the ones carried out by RDO/C. The Mission also had to balance its program to take into consideration the unevenness in strengths, weaknesses, progress, and needs of the six primary beneficiary countries.

Development Resources

USAID administers two basic types of assistance: the Economic Support Fund (ESF) and Development Assistance (DA). The Economic Support Fund is designed to assist *politically important* countries through direct cash transfers, commodity import programs, or special development projects. Development Assistance is allocated by Congress to sectors as well as to specific activities based on annual budget submissions from USAID. The Agency also coordinates Housing Guarantee Programs, the sale and donation of agricultural commodities under Public Law 480, and Foreign Disaster Assistance[6].

In the Eastern Caribbean, RDO/C created most of its projects with a combination of ESF and DA funding. After the 1983 intervention in Grenada, ESF resources accounted for at least half of RDO/C's commitments to the Eastern Caribbean[7].

Exogenous Factors

The success of USAID's program was also dependent on the impact of global trends, regional economic policy, and changes in existing trade arrangements. The following factors influenced the results of RDO/C's program:

- **Performance of the Donor Countries**. The Caribbean's open economies are affected by economic trends in the Eastern Caribbean's donor countries. The OECS' protected foreign markets for agricultural exports provide some insulation, but the region's tourism sector is tied directly to U.S. and European performance. Export growth is also influenced by Sterling and U.S Dollar exchange rates because the EC currency is pegged to the Dollar and because the region's two main export products, bananas and tourism, are sold in those tradeable currencies.

- **U.S. Political and Economic Themes**. In the 1980s the Reagan Administration advocated private sector-led economic growth and employment creation—for the U.S. and for the LAC region. Globally, the Agency took about four years to transform its earlier public sector focus into "private sector driven" Mission programs. The Administration continued to promote this philosophy when the Republicans were returned to office in 1984. By 1990, USAID was forced to re-order its priorities in favor of the *least* developed and most politically volatile regions like the former Soviet Union and Eastern Europe. Further, in 1992, the U.S. Government, in response to national concerns about "exporting jobs" introduced Section 599, an amendment to the Foreign Assistance Act, to discontinue the use of U.S. development resources for programs that promoted or were designed to facilitate U.S. investment in other countries.

- **Broader Development Initiatives**. In the 1970s the U.S. provided economic support to LDCs in the belief that if standards of living were improved, communism would become a less attractive alternative. In 1983, the trade and investment package brought about by the *Caribbean Basin Initiative (CBI)* opened up export opportunities for the OECS countries. In 1990, the *Enterprise for the Americas Initiative (EAI)* was launched to strengthen trade opportunities for Latin America and Caribbean economies through expanded trade and investment and the reduction of debt owed to the United States. In 1992, the first Enterprise for the Americas free trade agreement, NAFTA, was negotiated between the United States, Canada, and Mexico.

- **Regional Economic Management Policies**. The OECS countries utilize both joint and individual economic management policies. Since all six countries use the same currency, exchange rate policy requires unanimous commitment. However, each OECS country has independent control over fiscal management, anti-inflationary measures, tax policies, and investment incentives. Each state retains the right to access domestic and foreign debt but has placed self-imposed restrictions on its borrowings from the region's central and development banks (The Eastern Caribbean Central Bank and the Caribbean Development Bank).

- **Preferential Trade Relationships**. The OECS countries enjoy preferential access to Canada, Europe, and the United States under CARIBCAN, the Lomé Convention, and the Caribbean Basin Initiative, respectively. CARIBCAN provides access on a duty free basis to most goods but excludes apparel and footwear. The EC/ACP Lomé Convention extends preferential access to European markets for bananas, sugar, and manufactured goods. Prior to the CBI in 1984, the region had duty free access to the U.S. under the General System of Preferences (GSP). The CBI excluded apparel and footwear from duty free access but provided "806/807" exemptions on materials sourced from the United States and re-exported as a part of the finished product.

- **Global Trends in Trade and Investment**. Progress in other parts of the world has affected the Caribbean's trade and investment prospects and strategies. For example, Mexico is committed to market-oriented economic growth and privatization and other Latin American countries have come out of their debt quagmire as a result of the Baker Plan. Other changes included Eastern Bloc liberalization, selective growth in Africa, the sustained performance of the Asian tigers, and massive reforms in China. In particular, the Far East's attractiveness to offshore manufacturers in the last decade, and free trade commitments under the Uruguay Round, have affected the region's investment promotion momentum in international markets.

- **Regional Events**. Within the Caribbean, two factors had considerable ramifications for the RDO/C program: 1) the reduction in regional trade and the economic fallout of structural adjustment and trade liberalization in four MDCs; and 2) the increasing frequency of hurricane damage and other ecological disruptions over the last ten years. For the small-island states, opportunities for intra-regional exports declined substantially with devaluations in Jamaica, Guyana, and later, Trinidad & Tobago. Those countries, as part of their liberalization programs, also reduced tariffs on third market imports. Further, successive hurricanes and floods have devastated **Dominica and Antigua** and disrupted other economies in the region.

Table II, *Factors Influencing USAID's Approach To Development Assistance In The Region*, highlights a number of these key events which RDO/C took into consideration when developing its program and which have had major effects on the effectiveness and impact of the program.

3.2 Program Profile

The regional program consisted of two primary mechanisms: Project Interventions and Policy Dialogue. Between 1978 and 1994 USAID spent US$685 million on 118 regional and sub-regional projects. Datex estimates that $448 million (two-thirds) was committed exclusively to the Eastern Caribbean through annual bilateral commitments to projects and regional and/or subregional organizations. The remainder was channeled to the wider CARICOM region—including the OECS—through regional organizations like **the Caribbean Development Bank (CDB), the Caribbean Agricultural Research and Development Institute (CARDI), and the University of the West Indies (UWI)**.

This sub-section provides a summary of RDO/C objectives, priorities, strategic framework, and performance indicators. Section 3.3, *Program Portfolios*, contains descriptions of the project component of the program. Section 3.4, *Policy Dialogue*, provides an overview of RDO/C's approach to policy reform which was developed to support implementation of its program portfolios as well as to provide support for the broader policy initiatives undertaken by the **Caribbean Group for Cooperation in Economic Development (CGCED).**

Objectives

At the start of the 1980s, the long-term goal of RDO/C's regional program was to nurture the growth of viable, progressive democratic societies in which the basic human needs of all citizens could be met. The objectives of economic assistance to the English-speaking Eastern Caribbean at various stages over the life of the program were to:

- **Strengthen free political institutions** and environments in which private economies flourish and foster economic self-reliance;

- **Promote economic growth,** primarily among the six members of the OECS, as measured by significant movement in gross domestic production (GDP) and employment and led by export earnings;

- **Support regional cooperation and regional institutions** to help achieve the first two objectives;

- **Increase net foreign exchange earnings** from exports by supporting agricultural diversification and the preservation of natural resources and by providing support to tourism and selective manufacturing;

- **Develop and strengthen private sector institutions**, technology, and skills to improve and sustain a solid attractive business climate; and

- **Improve human resources** by upgrading quality and productivity through training and technical assistance.

Strategy

In the 1970s RDO/C's strategy reflected USAID's emphasis on fundamental issues. In the eighties the strategy took on a multi-dimensional growth orientation. By the nineties it was focused on broader con-

Table II
Factors Influencing USAID's Approach to Development Assistance in the Region

Pre 1978	1978-83	1984-91	After 1991
• '74 Oil crisis • Socialism in Caribbean • Economic decline in LDC's • Poor infra. • Independence	• CGCED • OECS, 81 • 48% oil hike • CBI in '83 • Grenada • BOP & Fiscal deficits • OECD recovery • Dollar appreciates • Structural adjustment • Independence	• LOME III, Dec '84 • Sterling appreciates • Fiscal discipline • Bananas & Tourism growth • Hurricane HUGO • LOME IV • Export led growth • Tourism #1	• NAFTA • European Union • Eastern Europe • CET • Economic liberalization

cerns about economic policy and the sustainability of the region's development initiatives. The Mission's strategies evolved as follows:

- At the start of its program in the seventies the strategy was to strengthen regional cooperation and the capacity of the beneficiary countries to meet basic human needs and to stimulate equitable economic recovery and growth.

- By the mid-eighties the strategy was to combine stabilization measures with structural adjustment initiatives in order to promote export-led, production based employment generating private sector-led growth and development.

- By the early nineties, the strategy was to support the OECS region's transition to a more competitive world trade environment by improving the business climate and by promoting competitive trade and investment policies. The strategy also included support for resource management and conservation initiatives.

After 1983, RDO/C's priorities were to provide support to the **Caribbean Basin Initiative** to ensure that its full benefits were realized and to help build the productive export base in the LDCs. The Mission encouraged the structural adjustment necessary to achieve long term economic viability and created projects to strengthen national and regional institutions. RDO/C also supported the emphasis being placed by the main donor groups on responsible economic management within the OECS.

RDO/C placed much more emphasis on the sustainability aspects of its private and public sector development efforts in the nineties than it had in the past—a position which echoed USAID's growing worldwide philosophy of encouraging LDC economic self reliance.

Some key elements of the Mission's earlier objectives in the mid-eighties were incorporated as strategic objectives for the 1990s. RDO/C placed much more emphasis on the sustainability aspects of its private and public sector development efforts in the nineties than it had in the past—a position which echoed USAID's growing worldwide philosophy of encouraging LDC economic self reliance.

Implementation Framework

RDO/C worked within four layered sets of institutional arrangements (Chart I, *Strategic Framework for USAID Development Assistance*). This framework consisted of concentric interrelationships among:

1) the six individual Eastern Caribbean countries;
2) the institutions of the subregional grouping of the OECS countries (i.e. the six countries focussed on in this study, plus the British Virgin Islands and Montserrat);
3) the institutions of the larger CARICOM region of 14 countries of which the OECS states are members; and
4) the policy agenda of the World Bank-led Caribbean Group for Cooperation in Economic Development (CGCED).

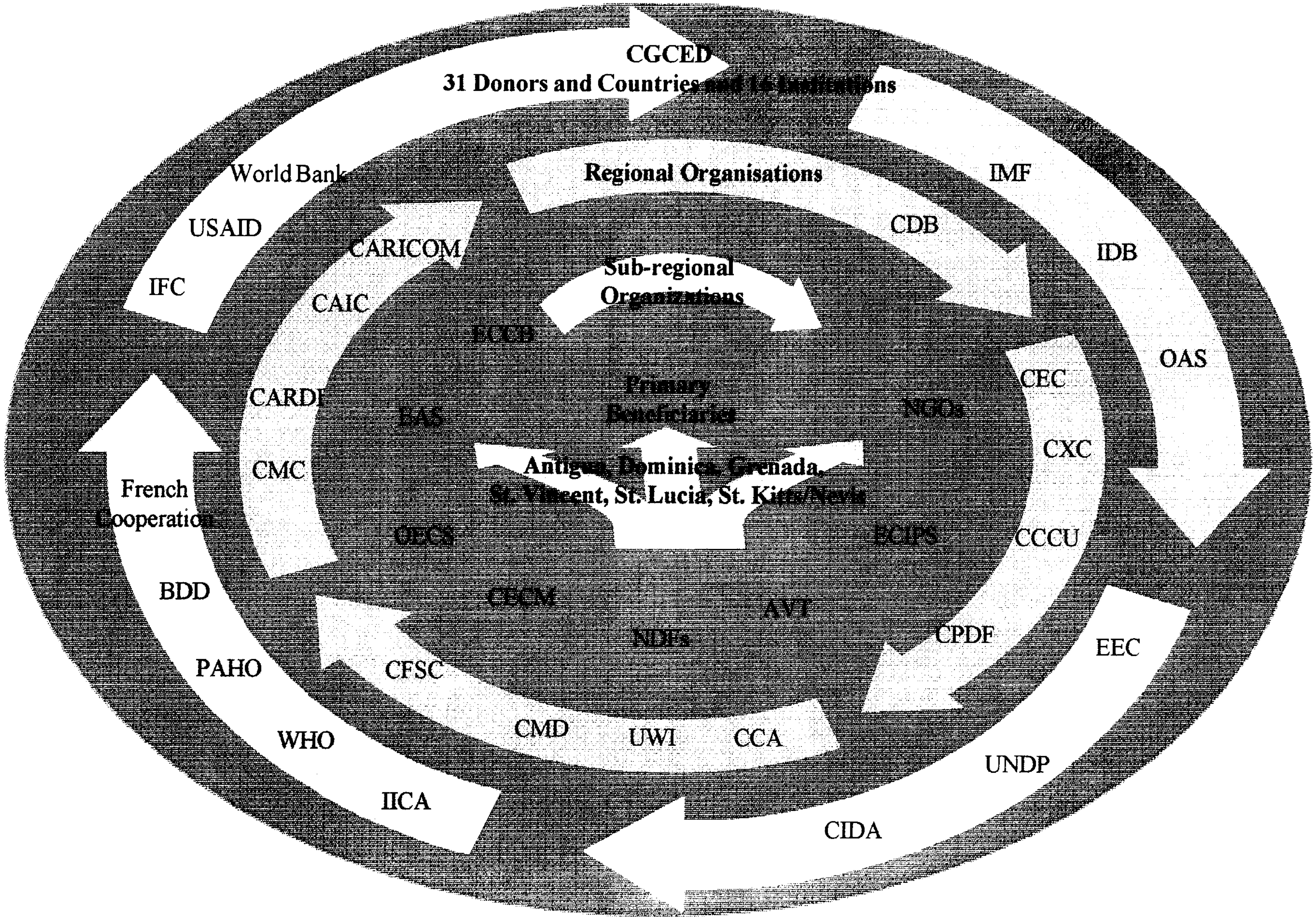
The core program focused on the inner circle of six OECS states. In terms of priority, the country-specific programs concentrated on the *three primary sectors of agriculture, infrastructure, and the private sector*. However, program emphasis varied, depending on the different development opportunities and constraints provided by each country (e.g. tourism in the Leewards and Agriculture in the Windwards).

As pointed out above in the discussion on *Exogenous Factors*, decisions on program emphasis and content also involved the implications and potential impacts of wider developments in the global economy and of expected changes in the region's traditional trading and technical cooperation arrangements.

Performance Indicators

RDO/C established macro-level quantitative benchmarks for its program in 1984–85 as part of its 1986–87

Chart I
Strategic Framework for USAID Development Assistance



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Action Plan. Prior to 1985, quantitative targets would have been difficult to measure. The very nature of the Mission's objectives—stabilizing the economic conditions of the LDCs and supporting basic institutional development—implied that expectations about increases in output, export performance, or employment in that period would have been premature.

In contrast, the Mission had positive expectations for the second half of the eighties. RDO/C expected that its development assistance would contribute to an annual average GDP growth rate of 4.7 percent; an increase in employment by at least 3.5 percent per year; and increases in exports and foreign exchange earnings of 7.8 percent annually. These estimates were based on individual country development strategies, a concept which RDO/C hoped the LDCs would eventually adopt in order to foster the development of comprehensive national policies and programs. In addition to these broad output benchmarks, the program was expected to help the OECS countries accomplish the following objectives:

- **Attract enclave manufacturing enterprises** to boost employment, income, and exports. The objective for average annual growth in light manufacturing was seven percent, ranging from 3.6 percent in **St. Kitts** to 15 percent in **Grenada.**

- **Increase employment in indigenous enterprises** in the small and micro enterprise sector. This increase would result from increased demand in tourism, agriculture, and enclave manufacturing and in response to demand generated from increased personal incomes. Annual growth rates were not developed for this sector, but it was anticipated that, on average, national unemployment would be contained within the 18–22 percent range.

- **Produce and export high quality agricultural commodities** to North America and Europe, first by establishing nucleus crop agribusiness ventures and then by broadening that base to include small holders through extension and training. Growth expectations were incremental, however, ranging from 0.5 percent in **St. Kitts** to about five percent per year for the four Windward Islands.

- **Increase tourism capacity** by expanding the region's infrastructure base and increase the utilization rates and income from those facilities. Annual growth rate expectations in the tourism sector ranged from negligible in **Dominica** to 18 percent in **Grenada.**

3.3 Program Portfolios

USAID's $685 million program consisted of five core portfolios:

- Infrastructure
- Private Sector
- Agriculture
- Training and Human Resources Development
- Health and Population

The program also included special assistance to Grenada in the aftermath of the 1983 intervention and some energy, environment, and hurricane disaster relief activities grouped as "other" projects (Chart II, *RDO/C Program 1978–1994, Total Obligations US$685million*).

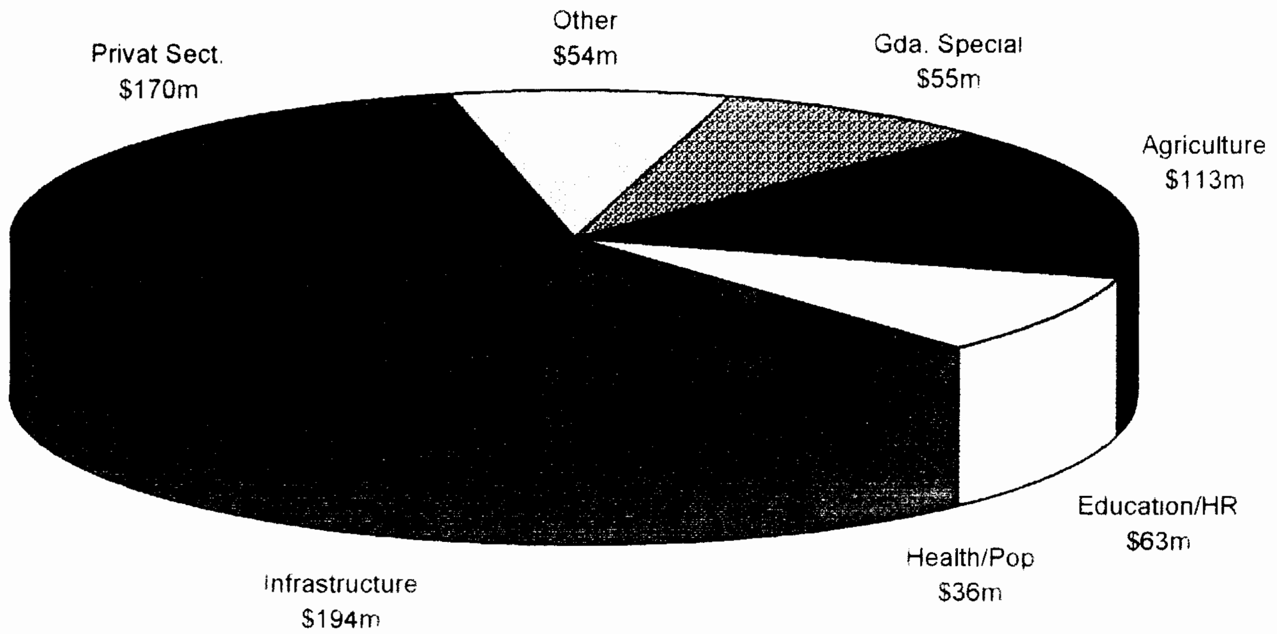
About a third of the early projects were loan programs for on-lending to the private sector and/or governments. However by the mid-eighties, eight out of every ten Caribbean projects were "grant funded". This change reflected USAID's global approach toward alleviating the abnormal debt crisis of developing countries. An overview of the main characteristics of the various portfolios is provided below.

The Infrastructure Portfolio

The infrastructure portfolio received the largest allocation of USAID funds, accounting for $194 million (28 percent) of total program obligations. The 17 infrastructure projects consisted of nine loan and eight grant interventions, encompassing housing development, rural development, road networks, alternative energy supply, utility training and management, tourism development, and water and sewerage support activities.

Infrastructure support was initiated by USAID/Washington in 1973 when it provided $30 million of soft

Chart II
RDO/C Program 1978-1994
Total Obligations US$685million



Infrastructure (28%), Private Sector (25%) and Agriculture (17%) accounted for 70% of the funding committed by USAID to the Caribbean program.

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loan capital to the **Caribbean Development Bank (CDB)** for housing development programs throughout the greater Caribbean region. Between 1975 and 1983 RDO/C's major infrastructure development efforts consisted of four projects created to provide $65 million of counterpart funding to Barbados, Guyana, and Jamaica and the creation of the *Basic Human Needs program*. During this period almost all of the infrastructure projects were channeled through the CDB.

The infrastructure portfolio developed into RDO/C's most direct form of bilateral assistance to the small island states.

The infrastructure portfolio developed into RDO/C's most direct form of bilateral assistance to the small island states. From 1984, RDO/C used the portfolio to upgrade and expand infrastructure to support agricultural, tourism, and manufacturing growth. For example, the program focused on: rectifying sewage damage to the high-growth hotel sector in **Grenada;** road construction in **St. Kitts** to provide access to new tourism sites; and road repair in **Dominica, St. Lucia, and St. Vincent** to improve road conditions and access to banana producing areas on those islands.

Simultaneously, the Mission maintained its commitment to job creation and socioeconomic development through the CDB-managed *Basic Human Needs Trust Fund.*

The Private Sector Portfolio

Between 1978 and 1994, USAID spent $170 million on private sector activities. However, while most of those funds were used to support private enterprise initiatives, about a third of the sector's 30 projects were designed to address policy issues within the public sector. Seven of the 30 private sector projects were created specifically to respond to the institutional needs of various private voluntary organizations (PVOs).

Faced with severe budgetary constraints after 1991, the private sector portfolio became more selective, supporting a smaller number of projects designed to improve the business environment and strengthen OECS policy reform.

The first 12 projects reflected RDO/C's early attempts to address the region's concerns about employment creation, economic diversification, and institutional development. Those interventions provided resources for industrial development, on-lending to small businesses, and the transfer of adaptive technology. They also contributed to the institutional strengthening of PVOs, like the **Caribbean Association of Industry and Commerce (CAIC),** and spawned the development of the micro enterprise **National Development Foundation (NDF)** concept in eight separate countries.

The private sector portfolio was initially driven by RDO/C's response to key deficiencies identified by the business community. It contained projects that provided *business development and financial brokering services, technical assistance and funding for private industrial parks, and term-lending for the agricultural, tourism, and manufacturing sectors*. The portfolio also included infrastructure projects essential to private sector investment in agriculture.

After RDO/C's private sector office was set up in 1983, the portfolio was modified to reflect the Mission's increasing emphasis on export-led growth. New projects highlighted the emphasis on investment promotion and export development, financial intermediation, policy reform, and small and micro enterprise development. Faced with severe budgetary constraints after 1991, the private sector portfolio became more selective, supporting a smaller number of projects designed to improve the business environment and strengthen OECS policy reform[8].

The Agricultural Sector Portfolio

RDO/C's agricultural interventions accounted for $113 million or approximately 17 percent of total program resources. The twenty-one projects covered a wide range of development themes. The agriculture portfolio covered *investment finance, agricultural diversification, NGO initiatives in rural development, research* *and development, and technology transfer as well as the thematic area of institutional strengthening.*

As with infrastructure, USAID assistance to the agricultural sector preceded RDO/C's presence in the region. The portfolio's first three projects in 1975-76 were loan facilities directed at stimulating regional agribusiness expansion through the **Caribbean Development Bank** and the Puerto Rico-based **Latin America Agribusiness Development (LADD)**, a private development finance facility for agribusinesses.

The agricultural program progressed from institution building toward a deliberate export development focus reaching its zenith in the late eighties.

By the late seventies, RDO/C had forged substantive regional alliances with the **Caribbean Agricultural Research and Development Institute (CARDI)** and the **University of the West Indies (UWI)**. At that time the main sectoral goal was to help the region strengthen the institutional capacity of leading agricultural support agencies. Other goals included the development of commercially viable and technically feasible approaches to growing nontraditional crops and the creation of a technical advisory capability to meet the needs of small farmers. Key interventions to support these goals included a *small farmer multi-crop systems project, a planning project, and two agricultural extension programs* undertaken in 1980 and 1982.

After 1983 the Mission's Agricultural Office established direct working relationships with the Ministries of Agriculture and non governmental organizations (NGOs) to broaden assistance to the sector. In the mid-eighties, the portfolio experimented with new export marketing systems for ethnic crops and supported structural adjustment within the agricultural sector.

The agricultural program progressed from institution building toward a deliberate export development focus reaching its zenith in the late eighties. Between 1988 and 1990 RDO/C devoted about half of its agricultural development resources in an attempt to establish a high value horticultural export capability in the region.

A central group of projects was created to facilitate foreign investment, marketing, production and post-harvest handling of new export agribusinesses. These projects also offered technical support for high value export crops like cocoa, tropical fruits, and winter vegetables. Other critical aspects of the program were continued assistance to CARDI for the improvement of non-traditional crops and to UWI for further development of small farmer training and advisory services.

In the 1990s, RDO/C assistance to the sector was geared toward continued research and development and post-harvest and export marketing services for nontraditional crops. Those activities were directed at sustaining the agribusiness initiatives of the local private sector.

The Education and Human Resources Development Portfolio

RDO/C committed $63 million to ten education and human resources development projects. The portfolio represented nine percent of overall program obligations and channeled about half of its resources into regional training interventions through the **University of the West Indies,** the **CARICOM Secretariat,** the **Caribbean Development Bank,** and **Ministries of Education** in selected countries.

In contrast to the multidimensional attributes of other core portfolios, RDO/C's education and human resources program focused on selective "niche" opportunities. There were two reasons for this approach. First, the portfolio was targeted at a sector where there had historically been a significant financial and institutional commitment to regional development by governments and donor agencies. For instance, **CIDA,** the United Kingdom's **Overseas Development Administration (ODA),** and the **United Nations Development Program (UNDP)** had established a strong presence in this area prior to USAID's arrival.

Second, the Mission was also financing significant amounts of training and HRD activities under its infrastructure, private sector, and agriculture programs. This gave the impression that its HRD efforts were smaller than they actually were.

Given that other donors and other portfolios were providing ample resources, the Mission's HRD strategy was to fill critical gaps by supporting high priority interventions to appropriate regional organizations. These initiatives were split into two parts:

1) an early effort to support special educational efforts like the *Primary Education Project,* which funded UWI's development of new curricula for primary schools and the *Caribbean Institutional Development Project,* which financed preparation of CXC curricula and examination systems; and
2) private sector business management education, workers' skills training, and leadership development programs undertaken between 1983 and 1991.

RDO/C continued to address broader issues like high fertility rates throughout the eighties.

The Health and Population Portfolio

The Mission provided $36 million to 16 projects under its health and population portfolio. The program accounted for only five percent of total obligations and was the smallest of the five core portfolios. Like Education/HRD, RDO/C adopted a niche approach to this sector in order to maximize the impact of its limited health budget.

In the early years, RDO/C positioned the health portfolio to address basic training needs of health managers in the area of administration and to improve population and family planning. The portfolio also focused on nutrition management and epidemiological services.

RDO/C continued to address broader issues like high fertility rates throughout the eighties. But a major focus for the health sector was instituional strengthening and the institutionalization of quailty management and administrative systems and capabilty. The health program took on three major challenges in its final years—*AIDS Communication and Technical Services, Health Care Policy Planning and Management, and Drug Abuse and Education*. Appendix 4 provides a more in depth look at this sector.

Grenada Assistance

After the 1983 intervention, USAID established a special program of assistance to reinforce Grenada's renewed commitment to democratic principles. The program objective was to develop the economic base necessary for stable democratic development through a strong market-oriented foundation and re-integration into regional and subregional economic structures[9].

The rationale was that Grenada had to overcome the problems created by the People's Revolutionary Government's (PRG) statist policies, injudicious external borrowing, and its inattention to infrastructure maintenance. The USAID strategy for Grenada was to improve the efficiency and diversity of the production base; attract foreign and domestic private investment; and expand small scale enterprise.

In 1984 and 1985 USAID obligated $57 million to help Grenada overcome its more pressing economic problems. This allocation included $19 million to complete a new airport and $10 million in budgetary support. The program's main focus was economic policy and planning assistance, institutional support and advisory services, and extensive upgrading of the island's infrastructure.

Grenada's government implemented all fourteen projects even though the underlying rationale for the program was to strengthen a market-led approach to economic development. **This special assistance to Grenada accounted for 8 percent of the overall program.** In addition, Grenada received extensive bilateral assistance under RDO/C's private sector, agricultural, and infrastructure programs.

3.4 Policy Dialogue

Policy dialogue became an integral part of RDO/C's development initiatives in the mid-eighties. Prior to that time, RDO/C had channeled most of its policy advice through the **Caribbean Group for Cooperation in Economic Development (CGCED).**

The Mission took a proactive position on policy reform after 1983 for two reasons. First, it was concerned about the rate of policy reform and the varying levels of commitment to policy changes already agreed to by the OECS states. Second, RDO/C wanted to link policy and project initiatives in order to improve program effectiveness and the probability of achieving its strategic objectives.

Priorities and Focus

Between 1978 and 1983, "policy dialogue" was limited to strengthening key public and private sector regional development institutions. The intent was to enhance the perspectives of these institutions on development options and issues. From 1984 to 1991, the Mission's priorities were more clearly articulated, although content and direction were confined to the three main program portfolios. By the early nineties, RDO/C's development agenda had shifted toward broader policy changes at the sectoral and national levels.

To accelerate policy change the Mission negotiated directly with the individual OECS governments.

In the mid-eighties RDO/C focused on two groups of policy issues: 1) structural economic and fiscal policy issues, and 2) foreign exchange policy and monetary and financial policy issues.

At the heart of USAID's concern over structural economic issues was the belief that each State should articulate a "comprehensive development strategy" designed and agreed upon jointly by the public and private sectors. Given that RDO/C's program hinged on substantial new private-sector investment, the Mission's wanted the beneficiary countries to carefully examine the validity of their investment processing systems and market intervention policies and their existing policies of public sector ownership of productive assets.

The Mission had also invested considerable resources in improvements in public management and wanted to ensure that the OECS countries followed through on tax reforms that could ultimately increase domestic and foreign investment in the productive sectors.

RDO/C encouraged the region to examine its fixed exchange rate policy in light of the gradual reduction in the competitiveness in tourism and other export sectors. This was partly the result of the inflationary impact of the second OPEC oil price hike in 1979 and the substantial appreciation of the US Dollar in 1981. The Mission also persuaded the OECS states to explore ways to rectify the region's disproportionate bias toward the use of credit for consumption rather than production purposes and to find ways to resolve the dearth of term-lending facilities within the commercial banking system.

Policy Agenda

USAID's approach, like that of the International Monetary Fund (IMF) and the World Bank, was to encourage its beneficiary countries to carry out policy change through project-related conditionality. In special cases, conditionality was tied to program assistance such as structural reform support. USAID concerns about the priorities articulated above resulted in a combination of project and technical assistance commitments to the region that were designed to ensure that the OECS could accomplish the following objectives:

- **Modify inhibiting aspects of existing fiscal incentives** that undercut the ability of the OECS countries to attract foreign investment. Streamline the investment approval processes.

- **Reduce or remove market restrictions** which hinder private sector production. Eliminate inefficient or inappropriate regulations and privatize state-owned productive assets.

- **Design comprehensive country development strategies** to guide new public sector investment policies. Encourage market-supportive policy reforms and develop tax systems that both encourage private sector activity and meet public sector requirements. Reorganize budgeting systems to raise cost effectiveness and increase public savings.

- **Encourage adoption of a competitive exchange rate regime** that reflects comparative prices inside and outside the OECS, thereby increasing export competitiveness and ensuring the efficient flow of credit to the productive sectors.

- **Improve the business climate** by revising laws, by supporting the USAID-funded investment promotion agency, and by making non-traditional financing options available to the private sector. Strengthen the region's human capital base by encouraging the private sector to contribute to regional management training.

- **Reinforce policy commitments to privatization** and to actions which eliminate preferential treatment for bananas.

- **Encourage adoption of natural resource management systems** to protect the environment, optimize land use, and improve coastal management policies.

Policy Implementation

To accelerate policy change the Mission negotiated directly with the individual OECS governments. At the subregional level, RDO/C initiated dialogue with the **Economic Affairs Secretariat (EAS)** and the **Eastern Caribbean Central Bank**. Within the larger Caribbean Community grouping, USAID held policy discussions with the **CARICOM Secretariat** and the **Caribbean Development Bank**. At the supranational level, RDO/C directed its macroeconomic policy concerns through the **Caribbean Group for Cooperation in Economic Development (CGCED).**

RDO/C used project interventions, cash transfers, and technical assistance efforts to improve the policy environment. Interventions with a strong policy orientation included the *Public Management and Policy Planning Project, the Inter-Agency Resident Mission Project, the Caribbean Policy Project, the Grenada and Dominica Structural Adjustment Project, the Health Care Policy Planning and Management Project, and the Structural Reform Support Project.*

Projects with supportive policy roles included the **Caribbean Association of Industry and Commerce's** *Private Sector Investment Assistance Project* and the regional *Investment Promotion and Export Development Project.*

There were some qualifiers to RDO/C's proposed policy agenda. For instance, the Mission acknowledged that reform was "a relatively new program element" and that the lead role in overall policy dialogue belonged to the CGCED. The Mission also recognized that it would have much more influence over issues that were closely related to its assistance program. It therefore ranked its expectations, listed above, in terms of relative priority.

Underlying Assumptions

RDO/C began to introduce assumptions into its Action Plans in 1985. Key assumptions were:

- **That the investment climate would become more conducive to foreign and local private sector investment.** The Mission expected that the six OECS countries would eliminate market restrictions, enhance investment promotion activities, streamline and accelerate investment processing, and establish an enabling framework for diversified export-led growth.

- **That the islands would adopt stronger macroeconomic policies to enhance export competitiveness** in the agriculture, manufacturing, and tourism sectors. At the implementation level, RDO/C assumed that the OECS countries would take a more definitive approach to policy reform to improve the export competitiveness of the region's goods and services.

- **That the leading bilateral and multilateral donors would maintain similar commitments to macroeconomic policy reform.** The Mission assumed that the United Kingdom, the United States, Canada, and the European Community programs would remain compatible and would not compromise the goal of achieving an expanded and diversified export base.

- **That the productive sectors,** because of preferential access to North American and European markets for *nontraditional* products, **would attract enough new investment to minimize the disproportionate resource shifts** from "productive sector" activities into "consumption" activities by the end of the 1980s.

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[5] USAID's Barbados Office in its 1977 annual budget submission to AID/Washington included a Certificate of DAP Validity to the effect that a development assistance strategy paper had not been developed because the World Bank had prepared a comprehensive study that contained essential sectoral and country information in 1975.

[6] A detailed description of USAID activities is contained in *Development and the National Interest: U.S. Economic Assistance into the 21st Century.* A Report by the Administrator, USAID February 17, 1989.

[7] RDO/C accessed only $24 million (7 percent) of its funding from the ESF between 1978 and 1983. Between 1983 and 1989 USAID obligated $223 million of ESF and $209 million of DA resources to its Caribbean program. RDO/C used $78 million or almost a third of its 1984-89 ESF budget in 1984 alone following the '83 Grenada intervention.

[8] RDO/C's last four private sector projects were the *Caribbean Law Institute, the Caribbean Policy Project, Grenada Technical Assistance, and the Caribbean Justice Improvement Project.*

[9] A Grenada Country Development Strategy Statement (CDSS), prepared in October 1984, contained in-depth descriptions of the constraints, goal, strategy, and proposed program elements.

4. Impact of USAID Assistance

The U.S. Government's commitment to democracy in the Caribbean and its promotion of private sector-led growth allowed USAID to develop a diverse $685 million assistance program. RDO/C blended conventional assistance with innovative and sometimes untried ideas in pursuit of those goals. The Mission was criticized as well as commended for acting both within and outside orthodox development boundaries.

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This section of the **Retrospective** examines the program's impact on the six primary beneficiary OECS countries. It combines analysis and commentary to explain RDO/C's rationale for the changes in emphasis over the life of the program. Most importantly, it takes a critical look at USAID's efforts to revitalize the OECS economies, to strengthen institutional capacity, to improve economic management, and to diversify and enhance the competitiveness of the region's productive sectors. Finally, this report highlights RDO/C's achievements and why the Mission succeeded or failed to accomplish its key development objectives.

4.1 Program Implementation

RDO/C's program evolved in three phases[10]. During Phase I (1978–1983) the Mission concentrated on *political and economic stabilization*. In Phase II (1984–1991) its focus was *economic growth*. In Phase III (1992–94) the Regional Office promoted key policy prerequisites for survival under *global competition*. Table III, *Overview of USAID Development Assistance in the Eastern Caribbean*, summarizes the themes, goals, priorities, and strategies of each phase. It also identifies the targeted sectors and the key institutional conduits of USAID's assistance.

4.2 The Stabilization Phase (1978–1983)

USAID gave equal priority to CARICOM and Eastern Caribbean issues during Phase I, and **between 1973 and 1983 USAID committed $347 million to 61 projects**. Of this sum, $274 million was spent on regional projects. The rest was allocated to the first set of country-specific projects. By the end of Phase I the Mission had moved toward a stronger bilateral focus[11]. The program began with an institutional focus on infrastructure and then branched out, again institutionally, into agriculture, education, and human resources development.

4.2.1 Themes and Priorities in Phase I

The long-term goal of the Caribbean program was viable, progressive, democratic societies in which the basic human needs of all citizens were being met[12]. During Phase I the major themes of the program were to enhance political stability, facilitate economic stabilization in the MDCs, and improve LDC economic management.

The long-term goal of the Caribbean program was viable, progressive, democratic societies in which the basic human needs of all citizens were being met.

The basic strategy was to encourage complementary regional and national policies and to design programs essential to achieving them. To accomplish this, RDO/C sought to strengthen regional institutions, support appropriate common services for the fledgling Eastern Caribbean mini-states, foster increased cooperation among all countries, and promote collaboration among the English and non-English speaking countries of the region.

Table III
Overview of USAID Development Assistance in the Eastern Caribbean: 1978 - 1994

	Stabilization : 1978 - 83	***Growth: 1984 - 91***	***Global Competition: 1992 - 1994***
Main Themes	Political Stability and Democracy, Economic Stabilization, Basic Human Needs, Public Sector Institutional Development, Agricul-ture and Industrial Development, HRD	Protect Democracy; Structural Adjustment, Private Sector- Led Export Development and Growth, Bi-lateral Assistance, and Public and Private Sector Institutional Development	Economic Liberalization: increase and diversify trade and investment; Policy Reform, Management of Natural Resources, Human Resource Development
Framework	CGCED, CARICOM, CDB, CBI	CGCED, CBI, EAI, EC/ACP Lome III,	CGCED, Lome IV, EU,WTO, NAFTA,CET
Main Goal	Viable progressive democratic societies that meet their citizens basic human needs.	Economic growth, self-reliance and efficient utilization of human and natural resources	Market policies that increase jobs and productivity based on comparative advantages
Priority	Foster regional cooperation and strengthen the role of the Caribbean Development Bank and other regional institutions	Help develop mutually reinforcing, viable and sustainable private sector and private sector-supporting institutions and governments	Help the region strengthen its private sector, promote exports and tourism earnings, and improve educational opportunities
Strategy	Provide resources to a) strengthen regional cooperation and the capacity to meet basic human needs and b) stimulate equitable economic recovery and growth	Combine stabilization measures with structural adjustment initiatives to promote export-led, production based, employment generating private sector-led development	Support the OECS region's transition to a more competitive world trade environment.
Focus	Commonwealth Caribbean countries	Six OECS member-countries	Six OECS member-countries
Sectors & Areas Targeted	1) Ag. Planning, Research, Extension 2) Education and HRD 3) Productive Employment 4) Alternative Energy 5) Infrastructure for the Productive Sector 6) Fiscal/Economic Support	Four Program "Clusters": 1) Infra. Expansion/Maint. Systems Dev'ment. 2) High Impact Agricultural Development 3) Private Sector-led Productive Investment in Manufacturing and Tourism Development 4) Public Mgmt and Institutional Development	1) Private Sector Development 2) Agricultural Marketing and Diversification 3) Human Resource Development 4) Other: Land Use, Housing, Bio Diversity
Key Institutions.	1) Public Sector: CDB and DFIs, CIC, ECCM Organizations, UWI and CARDI 2) Private Sector: IPPF, LAAD	1) Public Sector: CDB, CARICOM, CARDI, UWI, CAREC, ECCB, OECS, ECIPS/IDCs 2) Private Sector: CCCU CAIC/NDFs, CFSC, CATCO, CFPA, BIMAP, CPDF, CARILEC	1) Public Sector: CDB, CARICOM, CARDI, UWI/CMD, OECS/EAS, CAREC. 2) Private Sector: CAIC, CFSC, AVT, CFPA, ECODEF/NDFs.
Budget	**US$ 347 million / 61 projects**	**US$318 million / 52 projects**	**$20 million / 5 projects**

Between 1973 and 1979 the Regional Office committed $118 million to 24 regional projects. **Bill Wheeler, RDO/C's first Director from 1978 to 1984,** summed up the Mission's work in the following way:

> *"In the early years the main features of the program were to increase assistance flows, create a policy and institutional environment to facilitate effective utilization of those flows, and improve coordination of donor efforts to avoid project duplication or competing advice to the beneficiary countries."*

In 1980 the Mission expanded its bilateral relationships with the mini-states and fine-tuned its approach to the MDCs. Grenada's non-democratic change of government in March 1979 drove RDO/C to interact directly with each government to address issues that were the source of growing frustration, instability, and unrest. The OECS governments endorsed this change because they had grown impatient with the slow pace of multilateral support and wanted to increase donor flows to improve management of their separate economies.

Unlike their larger counterparts, the LDCs were more cautious and avoided costly showcase or grandiose investment projects.

4.2.2 The Phase I Program

USAID, like many other donors, believed that sustainable progress could best be achieved by private sector development and export-led growth. RDO/C concluded that while key regional organizations were doing a credible job, more direct interventions were needed to facilitate private sector-led growth. RDO/C believed that a mixed program of regional and bilateral assistance would be more effective due to the different support needs of the MDCs and LDCs.

As discussed above, the MDCs, with the exception of oil-rich Trinidad & Tobago, faced balance of payment disequilibria, acute foreign exchange shortages, excessive foreign debt, and were unable to maintain their development programs. Unlike their larger counterparts, the LDCs were more cautious and avoided costly showcase or grandiose investment projects. Their main problems were weak fiscal management, high unemployment and limited public sector investment resources.

The Mission spent $347 million in Phase I of which 80 percent was committed to infrastructure, private sector, and agricultural programs. Objectives during this phase were to:

1) foster regional cooperation through institutional development;
2) stimulate equitable economic recovery and growth in the LDCs;
3) provide stabilization support to the MDCs; and
4) strengthen the region's policy environment.

4.2.3 Early Institutional Support

To foster regional cooperation, RDO/C encapsulated institutional support in its regional projects, either as administrative or as management components. **Darwin Clarke, Special Assistant to the Mission Director** since 1992 and the designated Mission Evaluation Officer between 1982–1990, pointed out that:

> *"The Mission recognized that the region had to have strong institutions to facilitate economic development. RDO/C's priority was to strengthen the capabilities of key institutions to ensure they had the absorptive capacity to make the best use of USAID development assistance."*

Primary recipients during Phase I were the **Caribbean Development Bank (CDB), the University of the West Indies (UWI), the Caribbean Agricultural Research and Development Institute (CARDI), and the CARICOM Secretariat.** RDO/C used institutional support to encourage organizations to buy into new functional concepts, to reinforce their own efforts to build up basic technical competence, and to involve national agencies in project implementation.

At least 36 of the 61 Phase I projects contained institution building components, of which 29 were directed at the public sector. To encourage a balanced approach to regional cooperation, the Mission began to offer small grants to selective private voluntary organizations (PVOs). Between 1980–1983 RDO/C obligated $7 million to seven projects to help PVO business organizations, credit and labor unions, and micro enterprise institutions. The PVOs received assistance in organizational management, training, commodities, and improving customer services.

"How significant were RDO/C's institutional development efforts in improving functional cooperation in Phase I?" Three-quarters of the projects were regional initiatives. USAID obligated $274 million, or about 80 percent of its Phase I resources to regional programs. RDO/C spent $55 million, or about 20 percent of that $274 million on institutional development. In contrast, almost 100 percent of the $7 million of PVO funding was devoted to institutional strengthening.

To encourage a balanced approach to regional cooperation, the Mission began to offer small grants to selective private voluntary organizations

The type of institutional support varied among recipient organizations. In industrial development, the **Caribbean Development Bank (CBD)** delivered technical assistance to 77 clients in the OECS and 21 clients in the MDCs by utilizing a $4 million grant under the *Caribbean Institutional Development Project (CIDP)*. The Bank continued the program as the *Caribbean Technology Consulting Service (CTCS)*, institutionalizing most of CIDP's rules in the process.

CDB also strengthened its capacity to market energy audit services to the tourism, manufacturing, and power generation sectors under the USAID-funded $6 million *Alternative Energy Systems Project*. **Dr. Jeffrey Dellimore, Deputy Director of Social Development for the CDB** offered this perspective on the project's impact:

> *"We were able to convince USAID that project resources should be used to improve the operational efficiency of each island's utility company. Those improvements brought the OECS utilities up to a performance level that attracted private investment and reduced the need for government funds to support the utilities sector."*

The Bank also utilized a $1.4 million grant under the 1979 *Employment/Investment Promotion Project II (EIP II)* to strengthen loan management of OECS development banks and upgrade its business advisory services. These activities were carried out between 1979 and 1981.

In agriculture, the **Caribbean Agricultural Research and Development Institute (CARDI)** implemented the *Small Farmer Multi-Crop and the Eastern Caribbean Farm Systems R&D Projects*. The first project successfully created a sound infrastructure for farm-level applied research. The second established a region-wide approach for improving small holder cropping systems based on farm-based research on eight islands.

The University of the West Indies, which managed the *Caribbean Agricultural Extension Projects (CAEP I & II)*, institutionalized university outreach positions, established an extension communications unit, and created a regional agricultural extension coordinating committee.

For private sector development, RDO/C provided grant funding to revitalize the **Caribbean Association of Industry and Commerce (CAIC)** and enhance its capacity to spearhead business interests. **Sir John Stanley Goddard, CAIC's chairman** and a leading advocate of private sector-led growth pointed out:

> *"USAID resources allowed CAIC, which had been dormant since the sixties, to sensitize the business community about the role it should play in regional development. We used those funds to strengthen our advocacy role, to improve relations with governments, and to provide institutional support to local private sector organizations."*

RDO/C gave similar support to the **Caribbean Confederation of Credit Unions, Women In Development in Barbados, the trade union movement, and the National Development Foundation in Dominica.** The Mission complimented its private sector strengthening with a $20 million commitment that upgraded the University of the West Indies' capacity to improve primary school curricula and established a permanent base for the CXC examination system. Finally, as part of its health portfolio, RDO/C strengthened the **Caribbean Family Planning Affiliation's** capacity to support the organization's 19-member national family planning associations. This was accomplished under its *Population and Development Project.*

In about two-thirds of the cases, HRD and/or technical assistance components of RDO/C projects were institutionalized by the implementing organizations.

In summary, the Mission played a pivotal role in laying the foundation for sustained public and private sector contributions to regional cooperation in the early 1980s. By the end of Phase I both the private and public sectors had strengthened their service networks. USAID assistance allowed key organizations to enhance their capacity to contribute to regional development in the Commonwealth Caribbean. In about two-thirds of the cases, HRD and/or technical assistance components of RDO/C projects were institutionalized by the implementing organizations. Ten years later, both the CDB and CARDI have retained the technical support components of the early RDO/C projects.

4.2.4 Stabilization Support to Major Developing Countries

Between 1978 and 1982 USAID pledged $65 million in counterpart funding to a $517 million *Caribbean Development Facility (CDF) project.* The purpose of the Facility was to assist the governments of Barbados, Guyana, and Jamaica by providing funding equivalent to their counterpart contributions to new projects to be financed by the World Bank, InterAmerican Development Bank, European Development Fund, and the Caribbean Development Bank.

USAID resources were made available via four CDF project loans to the CDB who, in turn, on-lent those funds to the three Governments[13]. Those funds were the equivalent of "equity capital" which the three countries desperately needed to access the additional $452 million targeted for essential infrastructure, education, and agricultural development projects. When the Caribbean Development Facility was conceived, two of the three borrowing countries (Jamaica and Guyana) were experiencing severe economic hardships and were incapable of raising that level of funding on their own.

RDO/C was instrumental in ameliorating the MDCs' economic and social development problems by committing counterpart funds for priority development activities. The $65 million CDF commitment was USAID's main contribution to the larger CARICOM countries during Phase I, accounting for about 18 percent of total obligations to the region by the end of 1983.

That support accomplished two critical objectives. First, it facilitated the completion of the MDCs infrastructure "platform" for future development and circumvented further pressures on those countries' scarce foreign exchange resources. A Booz-Allen evaluation concluded that CDF loan priorities matched the borrowers' sectoral strategies and that the poor, the difficult-to-employ, and low income earners in **Barbados,** Guyana, and Jamaica were the prime beneficiaries of the 21 Caribbean Development Facility-assisted projects.

4.2.5 Economic Recovery of the Less Developed Countries

USAID's arrival in the Eastern Caribbean coincided with OECS misfortune. On the verge of a comeback in 1979, the LDCs were hit by a second inflationary OPEC oil hike, minimal tourism growth due to prolonged recession in OECS donor countries, declines in sugar production and banana exports, volcanic disturbances in **St. Vincent,** and hurricane destruction *(David)* in **Dominica.**

In 1980, a second hurricane hit **Dominica, St. Lucia, and St. Vincent** (*Allen)*. In that year sugar production and bananas exports fell to 80 percent and 50 percent of their 1978 levels. Sugar earnings continued to fall in 1981. The banana industry, by then on the road to recovery, faced plummeting prices as the U.S. dollar appreciated against the Sterling and other European currencies. Furthermore, MDC export markets, an expected catalyst for OECS growth and employment, were being threatened by the MDC's inability to meet their payment obligations through CARICOM's Multilateral Clearing Facility (CMCF)[14].

The Basic Needs Project and the rebuilding of the islands' agricultural export base were both sound and pragmatic responses to LDC unemployment, income reduction, and social instability.

RDO/C's program to help stimulate OECS economic recovery was directed at increasing output and employment in the productive sectors. By 1980, the Mission's two priorities were to:

1) use interim measures to maintain current levels of employment and production; and
2) expand upon earlier initiatives to promote private sector investment and job creation.

The cornerstone of USAID's interim support measures was its $10.5 million *Basic Human Needs/Employment Sector (BHNES) Project* This project was a CDB-managed grant program directed at labor intensive community development activities created to protect, and in some cases extend, previous investments in primary and secondary roads, hospitals, clinics, schools and community buildings. The project was expected to generate jobs and preserve existing physical and social infrastructure to avert social unrest and to ensure that production was not inhibited by deteriorating infrastructure.

USAID's role as a forerunner of the social safety net concept was endorsed by governments and donors alike.

The Mission's core program for medium-term economic recovery was designed to eliminate constraints to private sector growth and to intensify export development and investment promotion. Between 1978 and 1982, RDO/C introduced projects to improve management and skill capabilities, facilitate technology transfer, and eliminate export marketing constraints for nontraditional agricultural products.

New projects were created to provide long term finance, technical support, and credit to the small business and informal sectors. Resources were committed to strengthening planning, research, and extension services in the agricultural sector. Infrastructure priorities, such as water supply in **Antigua** and road rehabilitation in **Dominica,** were also part of RDO/C's economic recovery measures.

"How effective was RDO/C's economic recovery strategy in the aftermath of the OPEC-induced LDC recession?" Short term recovery measures were very successful. However, the impact of the medium-term program, which was started around 1981 - 1982, was too early to tell by the end of Phase I in 1983.

The *Basic Human Needs/Employment Sector Project (BHNES)* and the rebuilding of the islands' agricultural export base were both sound and pragmatic responses to LDC unemployment, income reduction, and social instability. However, lack of data precluded us from making a hard assessment of its impact on employment. The *Basic Human Needs/Employment Sector* (BHNES) Project was well received throughout the region. Caribbean Development Bank President, Sir Neville Nicholls, reflected that:

"USAID wanted to stimulate economic growth; what was missing was a safety net that addressed the basic needs of the poor as a stop-gap provision while the LDCs were strengthening their productive sector. We persuaded USAID to support the concept of a Basic Human Needs Project. It was well received by the small states and was the CDB's best USAID-funded project."[15]

USAID's role as a forerunner of the social safety net concept was endorsed by governments and donors alike. There is little doubt that the project had an overwhelmingly positive effect on rural communities. It came into effect at a time when unemployment was rising and governments were having difficulty meeting the social development needs of the rural poor. Engineering and construction components were well done and the Caribbean Development Bank was exceedingly effective in expediting proposal reviews and approvals. While host country political considerations often influenced proposal submissions, the project's timeliness improved the region's receptiveness to USAID's overall program in other priority areas.

RDO/C's most significant policy initiative during Phase I was the launching of the Caribbean Group for Cooperation in Economic Development.

The Mission also spent $40 million to alleviate productive sector and infrastructure deficiencies after Hurricanes David and Allen. That commitment allowed **Dominica, St. Lucia, and St. Vincent** to quickly rebuild the traditional small holder agricultural base which served the needs of over 20,000 rural families.

Under CDB management, the *Alternative Energy Systems Project* upgraded the operational efficiency of the OECS's electric utilities to North American standards. These improvements attracted private capital to the power industry and led to the privatization of several power plants in the region.

In terms of other priorities, new projects formulated in 1982 and 1983 that were designed to address specific private sector constraints produced mixed results. Moreover, there were early signs that the Mission's plan to facilitate private sector growth would be a more difficult undertaking.

Five early agricultural projects were created to provide $25 million in term loans to businesses and small holders. These projects were unable to achieve desired results primarily due to slow disbursement and limited demand for loan funds, especially from agribusiness firms.

Similar results were observed for credit directed at the light manufacturing sector. Also, within two years, the PDAP, a $6.4 million business development program, started running out of viable local ventures to support.

RDO/C's reaction was to "shoot the messenger", in this case the CDB. The reasons: in general, USAID was having misgivings about the appropriateness of using public sector agencies to implement private sector programs. Also, RDO/C had started to re-focus its private sector development initiatives on *foreign* investment and wanted to establish more *direct* delivery mechanisms for providing investment and technical assistance services to such clients. While these concerns were legitimate, the Mission missed a far more important message: the private sector's lackluster response to the CDB's programs was actually an early indicator that the investment climate and the region's attractiveness as an offshore base were not as conducive as they needed to be to stimulate higher levels of interest in export investment opportunities in the Eastern Caribbean.

4.2.6 Policy Formulation

RDO/C's most significant policy initiative during Phase I was the launching of the **Caribbean Group for Cooperation in Economic Development (CGCED)**. This initiative reflected the Carter Administration's philosophy that neighboring middle powers, such as Mexico and Venezuela, should have a greater participatory role in regional affairs. The CGCED's modus operandi in the late seventies was to promote economic assistance and the effectiveness of that support to the group's 15 member countries. The primary institutions were the World Bank, the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), CIDA, and the United Nations Development Program (UNDP). The EEC and OPEC were leading multilateral benefactors. Key bilaterals were the United Kingdom, France, Germany, Spain, The Netherlands, Japan, Colombia, Brazil, Mexico, Venezuela, and Trinidad and Tobago.

In consolidating donor and recipient country policy, the CGCED improved programming and scheduling of critical balance of payment support activities to the MDCs. That support gave the private sector in the larger territories the breathing space to expand intra-regional trade between 1978 and 1982[16].

USAID pledged $77 million to CGCED-approved projects in its formative years. This included:

1) The $65 million MDC counterpart funding program through the CDB;
2) The 1982 $2 million *Accelerated Private Sector Assistance Project* which financed Caribbean Project Development Facility work;
3) The $9.5 million *Agricultural Sector Structural Adjustment Project;* and
4) The $900,000 grant to the *Inter-Agency Residence Mission,* the **Antigua**-based IMF/ World Bank macroeconomic consultative program.

Export-growth in Phase I had been constrained by a weakened CARICOM market, by a decline in agricultural production, and by the private sector's limited capacity to take advantage of the Caribbean Basin Initiative.

4.2.7 Conclusions about USAID Impact Between 1978 and 1983

The RDO/C program achieved its primary goals of strengthening democracy and meeting basic human needs in Phase I. The assertive foreign policy exercised by the United States and its intervention in Grenada, backed up by USAID assistance, eliminated undemocratic government in the subregion. USAID's basic human needs program and its rehabilitation of productive infrastructure helped the OECS countries minimize the negative spillover effects of the 1970s. Those programs helped reduce political instability and social disillusionment by creating employment and upgrading social services in rural communities.

The Mission's coalescing of the Caribbean Group for Cooperation in Economic Development was an invaluable contribution to regional development. Stabilization support to the MDCs alleviated balance of payments problems and allowed them to undertake essential development projects when they lacked the resources to do so. Indirectly, these projects also helped facilitate trade between the MDCs and the OECS countries by obviating MDC foreign exchange deficiencies.

Overall, the program was instrumental in advancing regional cooperation but provided somewhat more support for public institutions than for private sector ones. In contrast, RDO/C attempts to fuel industrial and agribusiness development were less successful and exposed the limited investment capacity of the local private sectors.

RDO/C placed more emphasis on economic recovery and institutional strengthening than on policy reform in Phase I. That decision made sense given the misfortune that hit the region in the early eighties and the more urgent need to address fundamental rather than strategic issues (see para 4.2.5 above). Consequently, USAID's customary preference for linkages between program interventions and market reforms did not surface during Phase I. However, the Mission did initiate the equivalent of nonmarket reform measures—such as improving public sector efficiency—through selective HRD projects implemented in 1978–79.

4.3 The Growth Phase (1984–91)

Two factors drove USAID's strategy in Latin America and the Caribbean in the mid-eighties. First, the United States adopted a stronger foreign policy in the 1980s in response to an upsurge in non-democratic government, leftist ideology, and terrorist actions around the world. The second was a foreign policy decision to showcase the Caribbean basin as a model of democratic, private sector-led economies capable of competing successfully in international export markets. These decisions led to the unveiling of the **Caribbean Basin Initiative (CBI)** at the Organization of American States (OAS) in early 1982. The Grenada intervention in October 1983 was clearly consistent with these foreign policy initiatives.

During this Phase RDO/C concentrated on the OECS economies. **Between 1984 and 1991 USAID obligated $318 million to 52 new projects.** Within RDO/C's program, new private sector projects were twice that of any other portfolio, reflecting the emphasis placed on CBI investment and export-led opportunities. Only the special Grenada program, designed to support that country's political and economic rehabilitation efforts, equaled RDO/C's focus on the private sector during this period (Chart III, *RDO/C Programmes 1984–91 Total Obligations, $317million).*

This assertive "economic growth with equity" philosophy led to an increasing "top down" approach to developing new programs.

4.3.1 Themes and Priorities in Phase II

The main goal of the program in Phase II was to promote export-led economic growth. Other goals were to strengthen democratic institutions under which private enterprise could flourish; foster economic self reliance; and encourage Caribbean regional cooperation where this would facilitate efficient use of human and natural resources.

Although USAID's assistance had been reasonably effective, export-growth in Phase I had been constrained by a weakened CARICOM market, by a decline in agricultural production, and by the private sector's limited capacity to take advantage of the Caribbean Basin Initiative. Economic activity had not been strong enough to reduce high unemployment in the LDCs. Tourism, as the emerging growth industry, accounted for only a relatively small share of GDP at that time.

RDO/C's leading themes in Phase II were to provide support for the Caribbean Basin Initiative to ensure that its full benefits could be realized, to increase production, and to build the export base. Other themes were to assist with structural adjustment initiatives needed to achieve longer term viability; to support the Caribbean Group's emphasis on responsible economic management, and to strengthen and take advantage of efficiencies offered by regional institutions.

The RDO/C strategy was to encourage sound economic management and promote longer term adjustment to facilitate private sector market-led growth and development. The primary areas targeted were *light manufacturing, tourism, and non-traditional agriculture*. Those sectors were to be reinforced by infrastructure, human resources development, population, and modest health programs. Chart IV, *Overview of USAID Regional Development Office Program*, provides a snapshot of RDO/C's goals, indicators, targeted sectors, and key projects.

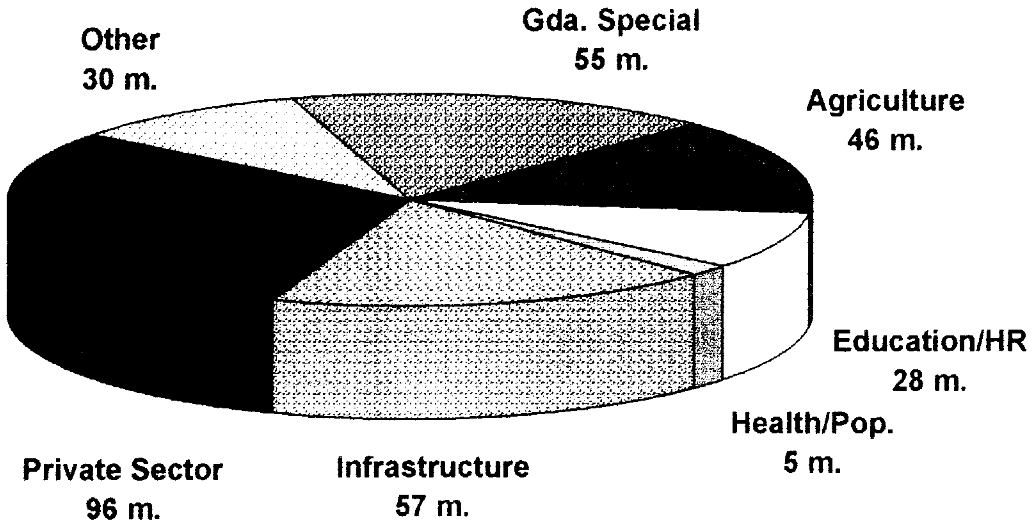
The Mission became increasingly proactive in Phase II. After the Grenada intervention, the Mission's outlook shifted somewhat. Their *raison d'etre* was now to improve the investment climate and stimulate foreign investment in manufacturing and agriculture. To accomplish this, RDO/C designed multifaceted programs whose success hinged on perceived CBI market opportunities and on effective technology transfer.

This assertive "economic growth with equity" philosophy led to an increasing "top down" approach to developing new programs. The Mission also placed more emphasis on convincing governments to agree to policy changes needed to improve program implementation.

RDO/C introduced a number of new projects that competed with previous USAID-supported public sector programs. **Bill Wheeler, the outgoing Mission Director in 1984,** summarized RDO/C's position in this way:

> *"Our finance programs ran into trouble because we were imposing special conditions on the Caribbean Development Bank who then added their own public sector conditionality to loans made to sub-lending development*

Chart III
RDO/C Programmes 1984-91
Total Obligations $317 million



Private Sector (30%); Infrastructure (18%); Agriculture (15%) are the major RDO/C programmes during USAID's next eight years in the Eastern Caribbean. Without Grenada, these three sectors represent 76% of USAID's programme focus.

Chart IV: USAID
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

Goals

1. Economic Stabilization
2. Sustainable Economic Growth
3. Shared Benefits of Growth
4. Stronger Democratic Institutions

Objectives and Achievement Indicators

OBJECTIVE 1. Stabilize Financial Structures
Indicators
- Public Sector Budget Deficit
- Current Account Balance of Payment
- Public Sector Savings

OBJECTIVE 2. Strengthen the Private Sector
Indicators
- Value of Assets Acquired by Private Sector under A.I.D.-Supported Divestiture Program
- A.I.D. Supported Credit to the Private Sector
- Direct Employment Created under A.I.D.-Supported program
- Number of Small Enterprises receiving credit under A.I.D.-Supported credit programs

OBJECTIVE 3. Promote Exports
Indicators
- Value of Nontraditional Exports resulting from A.I.D.-Supported Programs
- Value of Nontraditional Exports to Non Regional Markets
- Value of Selected Traditional Exports Resulting from A.I.D.-Supported Programs

OBJECTIVE 4. Expand/Improve Infrastructure
Indicators
- Roads built/rehabilitated (miles)
- Electric power transmission lines built (miles)
- Power generation capacity installed (megawatts)
- Potable water delivered (millions of gallons/day)

OBJECTIVE 5. Increase Participant training
Indicator
- Number of Persons beginning training programs

OBJECTIVE 6. Access to Family Planning
Indicator
- Percentage of eligible couples using contraceptives

OBJECTIVE 7. Improve Health/Health Services
Indicators
- Number of persons protected against major diseases under A.I.D. Supported Immunization and Vector Control programs
- Number of people served by new potable water and systems under A.I.D. Supported Programs
- Number of persons served by new sanitation services under A.I.D. Supported Program

OBJECTIVE 8. Promote Community Development
Indicators
- Number of jobs created
- Income generated
- Persons trained in new skills
- Persons formally educated
- Number of health interventions

-------Target Sector-------

NON-TRADITIONAL AGRICULTURE

LIGHT MANUFACTURING

TOURISM

AGRICULTURE CLUSTER

1. (HIAMP) High Impact Agriculture and Marketing Project
   - Agriculture Venture Trust
   - Cocoa Production
   - Mariculture
   - Mariculture (Smithsonian)
   - Windward Island Fruit
   - Eastern Caribbean Phytosanitary
2. (CARDI) Caribbean Agricultural Research & Development Institute
3. (CAEP) Caribbean Agriculture Extension Project

PRIVATE SECTOR CLUSTER

1. (IPED) Investment Promotion and Export Development
2. (IPIP) Infrastructure for Productive Investment
3. (CFSC) Caribbean Financial Services Corporation
4. (CAIC) Private Sector Investment Assistance
5. (SEA) Small Enterprise Assistance
6. (CPDF) Accelerated Private Sector Assistance
7. Regional Skills Training
8. Regional Development Training
9. Regional Management Training Pilot

INFRASTRUCTURE CLUSTER

1. Infrastructure Expansion and Maintenance Systems (IEMS)
   - Antigua Water
   - St. Kitts South East Peninsula
   - Nevis Port Improvements
   - Dominica Rural Electrification
   - St. Lucia Vieux Fort Industrial
   - St. Vincent Roads & Water
   - Grenada Infrastructure
   - Small Activity Fund
   - Regional Utility Maintenance
2. St. Lucia Geothermal
3. Cumberland Hydro-electric
4. Basic Needs Trust Fund

banks on each island. Those banks then attached their own credit criteria, making term lending even harder to obtain."

Similar constraints existed in the private sector. These included the banking sector's conservatism and the absence of appropriate delivery mechanisms for new employment-generating ideas. RDO/C's solution was to introduce experimental, stand-alone programs to fill various "gaps" in the investment, production, and marketing systems.

A notable feature of the RDO/C program was its ability to support and flow smoothly into the CBI's policy and ideological thrust.

4.3.2 The Significance of the Caribbean Basin Initiative

The CBI was put together by foreign policy planners seeking to address development issues without overextending LDC reliance on foreign aid. In line with the Reagan Administration's strong private enterprise orientation, the Initiative promoted development through business investment in the region, including U.S. ventures. The thrust of the strategy was to reduce or eliminate U.S. tariff and non-tariff barriers on Caribbean-produced goods in exchange for a series of measures to reduce policy, legal, and regulatory constraints on private investment, particularly foreign investment.

In effect, duty free access, with the exception of some protected products, made the Caribbean Basin more attractive to global investors whose strategy was to use low-cost locations to tap into the U.S. consumer market. CBI trade exemptions were designed to fuel employment-generating investment by local as well as foreign investors.

Equally important, CBI also pioneered the internalization of the "trade and investment" dimension to LDC development[17]. A notable feature of the RDO/C program was its ability to support and flow smoothly into the CBI's policy and ideological thrust.

4.3.3 The Cluster Approach

In the mid-eighties the Mission adopted a "cluster approach" to programming USAID assistance. The rationale was that successful development depended on integrated programs rather than on specialized sectoral interventions. Cluster programming strengthened RDO/C's capacity to address key issues and constraints and improved the use of Mission resources. It also allowed RDO/C to concentrate funding on priority programs and to utilize professional staff more effectively.

However, one potential weakness was that the success of the various portfolios would depend on "flagship" projects within each cluster. A second risk was that a number of otherwise sound interventions could be subsumed by the failure of one or two main projects. A third implication was that RDO/C's reputation would depend on the performance of a few high profile projects.

4.3.4 The Phase II Program

The Mission developed four program clusters in Phase II: *public sector, private sector, agriculture sector, and infrastructure sector*. Performance benchmarks were established for each of the four clusters, each of which contained policy reform components. The following assessments focus on USAID's *contribution* to improvements in the OECS economy since economic performance was also being influenced by governments, by other donor programs, and by exogenous factors not directly linked to U.S. development initiatives.

The Public Sector Cluster

The goal of the public sector cluster was to improve public management and institutional development by upgrading policies and systems in each state and the regional institutions of the OECS. RDO/C used program resources to help governments understand the issues under a productive-sector led strategy and then take the required action necessary to implement that economic objective.

RDO/C committed $23 million to a combination of on-going and new public sector programs. On-going projects included the World Bank-managed macroeconomic consultative group, the Inter-Agency Residence Mission, and a regional development training project. New projects were created in 1985 and 1986 to facilitate improvements in *public management and policy planning, delivery of health care services, business management, and structural reform.*

Expected accomplishments were modest: a one-percent increase in public sector savings as a share of GDP; one country using cost-recovery systems for health services; four countries with comprehensive development plans and improved customs administration, and three countries with program budgeting systems in place by 1990.

As a result of the Eastern Caribbean Drug Service, the annual drug purchasing costs of the OECS countries have been reduced almost in half since the program's inception in 1985.

The public sector cluster had considerable impact at the operational level but had only a marginal effect on reducing market constraints and almost no discernable effect on macroeconomic issues. At the operational level, RDO/C helped strengthen vital areas of fiscal policy. Various projects revamped tax systems in at least two countries, upgraded tax administration, facilitated fiscal reform in five states, and enhanced the capabilities of public officials.

USAID programs helped countries implement public sector programs, update databases, and obtain external financial and technical assistance. For example, the *Public Management and Policy Planning Project* made a positive contribution to developing indigenous analytical and programming capacity in three countries.

Bilateral policy reform programs in **Grenada and Dominica** focused on similar issues: *tax structures, management, reform, and civil service downsizing.* Programming methods in **Dominica** were gradual and produced more stable results than the radical changes introduced in Grenada[18]. One regional program, the *Eastern Caribbean Drug Service,* was exceptionally successful in demonstrating that good management could lead to significant reductions in the cost of social services. As a result of the Eastern Caribbean Drug Service, the annual drug purchasing costs of the OECS countries have been reduced almost in half since the program's inception in 1985.

RDO/C also succeeded in getting several governments to privatize parastatal monopolies and reduce import controls that favored statutory import agencies. The Mission requested but failed to secure a commitment to eliminate preferential extension, marketing, and credit treatment for traditional export crops like bananas.

At the policy level, **Grenada and St. Kitts-Nevis** initiated "country development strategies" as a joint private/public sector function. Unfortunately, the concept was not sustained because the governments were lukewarm about such cooperation and because the private sector was simply not interested in the subject. The Mission also backed-off pushing for competitive exchange rates in the face of an implacable OECS response to the idea and the Sterling's appreciation after 1985.

The Private Sector Cluster

The goal of the private sector cluster during Phase II was to accelerate productive investment in manufacturing and tourism. This was expected to help the OECS achieve higher levels of economic growth through improvement in the region's investment climate. The cluster was designed to increase the availability of investment finance, improve private sector dialogue, upgrade management and production technology, improve skills and productivity, and upgrade productive infrastructure.

This cluster was the centerpiece of the Mission's "export-led" strategy. RDO/C wanted to increase the private sector's role in economic policy formulation; achieve greater participation by women; strengthen private sector organizations that were supporting small and micro entrepreneurs; and strengthen the management and technical human resources base. Performance targets included a 4.5 percent annual increase in GDP, export growth of seven percent, the creation of 5,000 new jobs, and an annual increase of $30 million in valued added in manufacturing and tourism by 1990.

Five "flagship" projects spearheaded USAID's "export-led" initiatives: *the Private Sector Investment Assistance Project (PSIAP); the Investment Promotion and Export Development (IPED) Project; the Caribbean Financial Services Corporation (CFSC); the Small Enterprise Assistance Project (SEAP); and the Productive Infrastructure Rehabilitation Projects (PIR I & II).*

CAIC's most notable achievement was its success in elevating the private sector's contribution to regional development.

The contributions of these projects to OECS economic development and performance are summarized below.

The Private Sector Investment Assistance Project. In 1981, RDO/C provided $3.5 million to the **Caribbean Association of Industry and Commerce (CAIC)** to strengthen its institutional capabilities and services. CAIC's main tasks were to coordinate advocacy, public relations, and technical assistance to member organizations in the CARICOM countries. By the mid-eighties the Association had become a primary instrument for policy change in the region. CAIC continued to access USAID funds until 1993, making the Association one of the longest standing beneficiaries of the RDO/C program.

The project's investment promotion service has largely succeeded in demonstrating its value as an overseas-based window to promote and represent regional business interests.

CAIC's most notable achievement was its success in elevating the private sector's contribution to regional development. CAIC advocacy led to observer status at CARICOM Ministerial sessions. This gave the private sector the chance to make valuable contributions to development strategies, investment policy, trade decisions, and fiscal issues.

At the national level, advocacy was converted from sporadic, poorly conceived, and ineffective efforts to a sustained, reasoned, and integrated process of communication with public sector decision-makers. The private sector's views are now openly solicited by Prime Ministers and other senior decision-makers in most countries. Also, the Association brought about a noticeable change of attitude toward training and human resources development in the business community. That change paved the way for other, more institutionalized training by the **Centre for Management Development, the Barbados Institute of Management and Productivity, and the University of the West Indies.**

A repeated criticism of CAIC was that it functioned like a public sector secretariat and that it failed to become sustainable after USAID funding had expired. However, a closer look at the Association's success in strengthening local organizations suggests that CAIC served its purpose as a multifaceted *parent:* Barbados, Jamaica, Guyana and Trinidad & Tobago now have stronger private sector organizations as well as umbrella groups of their own to coordinate and pursue policy issues at senior government levels[19].

The Investment Promotion and Export Development Project (IPED) was created as a $17 million grant program to promote foreign and regional investment in the Eastern Caribbean. It consisted of a technical contract to attract **Caribbean Basin Initiative** investment and institutional support to establish the *Eastern Caribbean Investment Promotion Service (ECIPS)* in Washington. The project also supported investment facilitation in the six OECS countries through *Industrial Development Corporations (IDCs)*. The program carried forward the efforts of a predecessor project and complemented activities undertaken by related investment and policy projects[20].

The project's investor search function in Washington, D.C. consisted of attendance at trade shows, direct contact with U.S. and other overseas investors, and participation at high-visibility conferences dealing with preferential trade. The main role of the Industrial Development Corporations was to facilitate investment by streamlining regulations and incentives and by improving the investment concession process.

The project was a qualified success in achieving many of its objectives. The project's investment promotion service has largely succeeded in demonstrating its value as an overseas-based window to promote and represent regional business interests. Also, the ECIPS-IDC model strengthened the capacity of OECS countries to initiate and follow-through on a broader range of investment priorities.

Many experts view CFSC as RDO/C's most successful project.

The investment promotion effort, however, suffered from two anomalies. First, it was too dependent on donor resources, and second, it had to be implemented by the public sector because the local private sector lacked the capacity to do so. Nevertheless, the project demonstrated the effects of different types of promotional activities such as developing leads for joint ventures and promoting the Caribbean as a good place to do business.

This changed the private sector view of the value of *business promotion* programs. For example, the hotel sector now actively promotes special festivals and cruise ship/duty free shopping in St. **Lucia,** while the legal profession encourages offshore financial services in **St. Kitts-Nevis**. In recent years, **Grenada** hosted the first OECS trade show and **Antigua** launched a regional arts and crafts trade exhibition. **Dominica** has also searched for ways to use its investment promotion capabilities to promote its emerging eco-tourism industry.

Professional management and the experience and commitment of CFSC directors were the main reasons why the program became so successful.

The Caribbean Financial Services Corporation (CFSC) was established in 1984 as a private, profit-making development finance institution (DFI) to provide term lending and other financial services to enterprises in the English-speaking Caribbean. The project was designed to fill one of the missing links for productive sector investment resulting from the banking sector's conservatism and risk aversion. The Corporation borrowed $15 million of USAID funds at relatively concessional terms and attracted $3 million of private equity capital from leading regional businesses.

Many experts view CFSC as RDO/C's most successful project. As of March 1995, cumulative loan and equity disbursements had reached $41 million with CFSC participating in 131 projects in all the CARICOM countries except Jamaica. These projects, mostly start-ups, utilized about $160 million in other investment funds; they now employ in excess of 1200 persons and generate approximately $75 million of foreign exchange earnings annually.

CFSC's Chairman Sir John Stanley Goddard, attributes success to prudent business management and the intimate network of business information which Board members brought to the Corporation:

> *"We were not afraid to finance projects on their own merit or to take legal action against delinquent borrowers. Board members were keyed into their own private sectors and we screened our clients carefully. We insisted that CFSC be run as tightly as our own businesses and stuck with a small staff to keep down overheads and maintain efficiency".*

This hard nosed business approach attracted European Investment Bank, World Bank, and Caribbean Development Bank capital and allowed the Corporation to eventually take equity stakes in some ventures and provide financial services to others.

With regard to portfolio distribution, 20 percent of CFSC loans are in **Barbados;** 13 percent in **St. Lucia;** 13 percent in **Grenada,** and the rest shared between the other OECS countries, Trinidad, and Guyana. Tourism accounts for 57 percent of the loan and investment portfolio and industry about 24 percent.

The close involvement of private sector leaders in the design, ownership, and management of the project was one of RDO/C's more commendable achievements. Likewise, professional management and the experience and commitment of CFSC directors were the main reasons why the program became so successful. CFSC is also the most successful of USAID's Latin American and Caribbean private Development Finance Institution programs, outperforming Trafalgar Finance in Jamaica and the Costa Rica equivalent in that country. The Corporation has demonstrated that long-term lending can be a profitable, sustainable niche for financiers and its performance has caused commercial banks to take a second look at business prospects in that area.

The Small Enterprise Assistance Project. (SEAP) was created in 1985 to increase employment, income, productivity, and economic growth in the growing small business sector. The primary purpose of the project was to support small and micro enterprise development through **National Development Foundations** (NDFs) in eight Eastern Caribbean countries. The NDFs served the micro enterprise and the small business sectors and performed both financial and development functions. They combined loans, technical assistance, and training to help get businesses off the ground.

Various evaluations reached the conclusion that the NDFs achieved the project purpose of increasing the efficiency of micro and small enterprises in the Eastern Caribbean. The NDFs' major accomplishments were in delivering credit, technical assistance, and training to the *micro enterprise* sector. Data on SEAP's initial impact was not available, but information on its 1990–1994 performance revealed that the NDFs supported the expansion of 5,000 new micro enterprises and that those businesses created 10,000 new jobs in the process.

Like the Caribbean Financial Services Corporation, SEAP had a positive *demonstration effect* on the financial sector. At the start of the program in the eighties, commercial banks endorsed SEAP's activities partly because the project allowed them to channel riskier loans to the National Development Foundations, thereby limiting their own loan exposure. By the early nineties these same banks were openly promoting small business loans and competing with the NDFs for the Foundations' best clients. Those banks are still criticized for being too selective and for lending to only those micro enterprises with a proven track record of success. However, their forays into this niche market is an impressive endorsement of the NDFs' pioneering efforts and should have an increasingly positive impact on enterprise development in the future.

Unlike the Caribbean Financial Services Corporation, the NDFs were heavily staffed and had been nurtured into a grant culture of continuous donor dependency over the ten-year life of project.

SEAP's main flaw was that it did not achieve the level of institutional viability needed to survive after RDO/C support had come to an end. The program was established with a disproportionate bias towards development rather than business. Unlike the Caribbean Financial Services Corporation, the NDFs were heavily staffed and had been nurtured into a grant culture of continuous donor dependency over the ten-year life of project. Strategically, the NDF Boards and professional managers did not "own" those organizations and were not as driven as CFSC's Board to establish a cost effective framework for staying in business after USAID funding had expired.

Selective global assessments of sustainability have shown that most micro enterprise programs are financially unsustainable. Yet the NDF program achieved above average cost-recovery when ranked against similar programs in other parts of the world. However, such comparisons should not be generalized since the NDFs function in a smaller and more centralized financial and technical assistance environment than similar organizations in other countries. (In the early stages of the Retrospective, a seperate assessment of SEAP was conducted. The main findings of that review are found in Annex 5.)

Productive Infrastructure Rehabilitation Projects I & II. The goal of this $20 million grant program was to increase per capita incomes and productivity in the productive sectors between 1982 and 1987. The purpose of the two PIR projects was to rehabilitate road systems in **St. Lucia** and **St. Vincent** which had fallen into a disastrous state of disrepair. RDO/C expected that this investment in road rehabilitation would benefit the two economies by reducing inland transport costs and thereby increase the production of goods at lower production and marketing costs.

The program achieved its main objectives. The two PIR projects increased movement of agricultural and industrial goods; contributed to a 25 percent increase in overall productivity, and decreased operating costs on project-financed roads. It also sensitized the governments about the importance of productive sector infrastructure to economic development.

The program demonstrated USAID's commitment to the rehabilitation of traditional crops in the mid-eighties and to agricultural diversification after 1985. In upgrading 130 miles of feeder roads in **St. Lucia** and **St. Vincent** and a few secondary roads in strategic locations, it benefitted banana farmers until the end of the eighties. However, its main weakness, like that of most donor-funded infrastructure programs, was the absence of an adequate maintenance program to retain the benefits of the assistance after project activities had been completed .

In summary, the private sector cluster made a substantial contribution to export led growth during the 1980s. The program helped the OECS achieve the following:

- **Real GDP growth of 5 percent annually** and a 6 percent increase in merchandise exports to about $456 million by 1992[21].
- **A doubling of exports of manufactured goods** to the United States and Europe to $67 million, partly as a result of thirty-six Caribbean Basin Initiative-induced "807" subcontracts which were established in the six beneficiary countries.
- **New investment of at least $57 million** dispersed among the six beneficiary countries[22].
- **The creation of 6,000 short and long term jobs** between 1980 and 1988, mostly as a result of new investment in the manufacturing and tourism sectors. This led to an increase in value added in the manufacturing sector by an average of $11 million annually between 1987 and 1992.

It is important to point out that most of impact of the private sector portfolio occurred between 1988 and 1991. In that regard, the USG's introduction of Section 599 of the Foreign Assistance Act in 1992 (which restricted the use of U.S. Government resources for investment and export development programs), had less of a negative effect on RDO/C's program in the Eastern Caribbean than in other parts of the developing world. Although USAID did not provide direct support to tourism, the *Services* sector (which included tourism), emerged as the dynamic growth area in the eighties, doubling in **Antigua** and increasing its contribution to GDP by approximately 20 percent in the other OECS countries by 1990.

In the tourism sector, growth was decidedly positive, averaging five percent per year in the second half of the eighties. However, while USAID's infrastructure program helped expand the OECS' tourism capacity, there were many *external* factors—such as economic recovery by OECS donor countries, aviation deregulation, new tourism products (cruises), and the appreciation of sterling against the U.S. Dollar—that were major catalysts of tourism growth during this period. (Chart IV).

The Agriculture Sector Cluster

The goal of the agricultural cluster was to increase production and export earnings while diversifying and re-orienting the sector toward high value export crops[23]. The intent was to increase nontraditional exports. The Mission's priorities were to attract overseas investors who had market access, technology, and management skills; to test and adapt production practices to the Eastern Caribbean environment; and to establish marketing channels and provide technical assistance for local production. RDO/C also continued to bolster the institutional capacity of key institutions, like **Caribbean Agriculture Research and Development Institute (CARDI) and the University of the West**

Indies (UWI), in research, extension, technology transfer, and farmer organization development. The Mission also encouraged governments to divest state-owned lands.

The *High Impact Agricultural Marketing and Production* (HIAMP) Project spearheaded RDO/C's strategy to expand the region's nontraditional export base. The main components of the project were:

The foreign agribusiness investment thrust suffered because the Eastern Caribbean is not an attractive location for high value export ventures.

1) the *Agricultural Venture Trust (AVT),* a venture capital facility to provide equity for agribusinesses plus a technical assistance contract to help package new business deals, test new crops, and coordinate investment promotion in the U.S.;
2) a cocoa industry technology transfer and productivity enhancement program;
3) a commercial spiny lobster production assessment in **Antigua;**
4) a regional tropical fruit sub-project designed to increase export marketing of established tree crops; and
5) a Leeward Islands crop diversification program to demonstrate the benefits of high-technology and mechanized production of crops for the export market.

In addition, RDO/C continued to channel resources to small-scale producers of nontraditional crops through various CARDI-managed programs. By 1989 the tropical produce sub-project had been redesigned and turned over to CARDI and a new *Agricultural Research and Extension Project* (AREP) added to strengthen the Institute's capacity to provide technical advice and transfer adaptive technologies to small farmers.

RDO/C's performance targets in this sector were to increase agricultural growth by five percent annually through 1990. Other targets included an increase in value added by $10 million per year; a $3 million increase in annual value added to traditional export crops by 1990; and an $8 million increase in annual value added to nontraditional exports by the same year.

USAID's unorthodox approach to agricultural development produced mixed results in the eighties. It is generally accepted, by RDO/C and within the region, that the High Impact Agricultural Marketing and Production (HIAMP) project fell far short of it main goal: to attract overseas investors with the resources to establish sustainable export production of high-value crops. However, it did add to the diversity of investment activities undertaken by the local private sector.

Over the eight-year life of the project, the Agricultural Venture Trust invested $8.2 million in 31 operations. Those ventures also leveraged $4-8 million in loan capital from the OECS financial system. However, most investors were small scale import substitution businesses involved in crop production, agro-processing, livestock, and fruit production. Only eight of the 31 ventures were geared toward international markets, four of which were still operational at the end of the project in 1993.

The foreign agribusiness investment thrust suffered because the Eastern Caribbean is not an attractive location for high value export ventures. In the OECS, production costs are well above similar locations in Africa, Asia, or Central America. In addition, there are chronic weaknesses in transportation, technical services, phytosanitary control, and trade finance in the offshore agribusiness sector[24].

It is important to emphasize that investors look at export agriculture quite differently than other industries because marketing systems are exceedingly price sensitive and returns more unpredictable. Unlike manufacturing or tourism, where production conditions are more controllable, the horticultural industry requires exceptional returns on investment in the good years to compensate for substantial losses due to environmental misfortune in the bad ones. The Eastern Caribbean did not offer that level of assurance to those who took the time to explore investment prospects through the HIAMP program.

USAID efforts to improve marketing systems for small farmer exports to international markets ran into similar difficulties. The *Caribbean Agricultural Trading Company (CATCO),* a project-funded export development program, incurred persistent financial losses and was eventually terminated after various attempts had been made to improve operational efficiency.

Between 1986 and 1991 production and export growth for bananas increased exponentially when Sterling's appreciation against the Dollar created the best price returns that the industry had seen in its 40-year history

In contrast, the Mission's institutional development efforts had a distinctly positive effect on the agricultural sector. By 1989, the program had registered the following accomplishments:

- **National agricultural extension services were restructured** to improve cost effectiveness.
- **A network of applied research was established in each island** and 14 nontraditional crops benefitted from the transfer of technology improvements resulting from this research.
- **A land registration and titling system was established in St. Lucia,** marketing of non-traditional exports by small farmers was undertaken in St. Vincent, and livestock improvements were realized in **Antigua.**
- **Institutional strengthening gains were realized in 25 small farmer cooperatives** in the six beneficiary countries.

RDO/C support also stimulated fresh produce exports *within* the Eastern Caribbean. For example, **Dominica's** 400 informal exporters were exporting EC$11 million of nontraditional produce to Antigua, Guadeloupe, and St. Maarten by 1990. This represented about 15 percent of the value of **Dominica's** annual banana exports to the United Kingdom. **Grenada** and **St. Vincent** also made substantial inroads into Trinidad and Barbados markets through similar distribution systems[25].

Overall, agricultural diversification, especially in the Windward Islands, was marginalized by the extraordinary growth in the banana industry that occurred in the second half of the eighties. Between 1986 and 1991 production and export growth for bananas increased exponentially when Sterling's appreciation against the Dollar created the best price returns that the industry had seen in its 40-year history.

Many farmers shelved interest in alternative crops, increasing banana production and exports by 20 to 70 percent in St. Vincent, St. Lucia, and Dominica as prices rose, in real terms, by as much as 40 percent between 1984 and 1987. This expansion resulted in higher wage and input costs in the agricultural sector as a whole and dampened prospects of faster diversification in the four Windward Islands.

In falling short of expectations, HIAMP unfortunately distorted regional perceptions of the impact of USAID's efforts in this sector.

In summary, the agricultural program produced mixed results between 1984 and 1991. The High Impact Agricultural Marketing and Production Project, the Mission's flagship program, was an innovative but premature investment concept. The program did succeed in fostering *domestic* agribusinesses—albeit with much lower export capabilities than that of the foreign investors it sought to attract. In falling short of expectations, HIAMP unfortunately distorted regional perceptions of the impact of USAID's efforts in this sector, even though the project accounted for only 20 percent of the Mission's $113 million agricultural portfolio. **Mission Director James Holtaway** pointed out:

> *"We helped to rehabilitate the banana industry in the early eighties and were not suggesting that high value horticulture replace the traditionals like bananas, cocoa, or sugar cane. The strategy was to find niche markets for new crops to help create a smoother transition to open competition after 1992".*

The Infrastructure Cluster

The goal of this cluster was to eliminate infrastructure constraints to export-led growth. The rationale was that basic infrastructure was a critical prerequisite for attracting productive investment, expanding tourism, and increasing agricultural production. Other valid reasons were that infrastructure support would:

1) indirectly foster social stability and reinforce the islands commitment to democracy;
2) reduce government debt levels and contribute to improved fiscal management by financing capital projects with grant resources; and
3) allow USAID to maintain an equitable regional approach to development assistance given its significant commitment to rehabilitate Grenada's economy after the US intervention in 1983.

> ***RUMP has repeatedly been characterized as one of RDO/C's more successful interventions.***

The program was centered around the *Infrastructure Expansion and Maintenance Systems Project*. IEMS improvements were expected to allow key productive sectors to meet agricultural, manufacturing, and tourism growth targets. Performance targets were to improve 354 miles of roads, increase water supply by 3.3 million gallons per day, add 8.3 megawatts of power capacity, and reduce oil imports by 125,000 barrels per year by increasing local energy resources. The Mission also planned to upgrade the institutional capacity of the region's nine electric utilities through a special sub-project.

The cluster eliminated many constraints to export-led growth. In terms of performance, the *Infrastructure Expansion and Maintenance Systems Project* had a focused and positive impact on the productive sectors. In addition, RDO/C's *Basic Human Needs Trust Fund*, which was not part of the cluster, continued to play a key role in facilitating rural development and in reinforcing USAID's emphasis on maintaining public infrastructure and socioeconomic services in communities serving the productive sectors.

In Phase II, RDO/C's infrastructure program accomplished the following:

- The 40-mile Roseau to Melville Hall Airport road in **Dominica** was rehabilitated and a multi-year program was implemented to develop **Antigua's** potable water resources.
- The seven-mile St. George's to Point Saline Airport road and crucial sewerage maintenance systems in the Grand Anse tourism belt in **Grenada** were reconstructed.
- A 7-mile road was built in **St. Kitts**, opening access to a third of the country's land for tourism development.

When those projects were completed, USAID had rehabilitated 200 miles of roads in **Dominica, Grenada, St. Lucia**, and **St. Vincent** and had increased power capacity by 3.3 megawatts in **Grenada** and **Dominica**. The program established soil and water conservation practices in **St. Kitts**; increased water availability by 740,000 gallons per day in **Antigua** and **Grenada**; and added 23 miles of transmission lines that resulted in over 1,000 new house connections on **Dominica's** east coast.

Two sustainable programs were created under the infrastructure program:

1) the $20 million **Basic Human Needs Trust Fund** which attracted other donor funding and is now an integral part of the Caribbean Development Bank's rural community and infrastructure development program; and
2) the **Caribbean Electric Utilities Corporation (CARILEC)**, an "umbrella" training and technical advisory company created by the region's nine electric utilities.

The *Basic Human Needs Trust Fund*, managed by the Caribbean Development Bank, was RDO/C's most impressive "soft" project: it financed 266 new or rehabilitated subprojects; generated 110,000 person-weeks of employment; and developed maintenance plans for five countries. The project improved conditions at schools and health clinics, effectively upgrading the work environment for delivering vital social services.

The *Regional Utilities Maintenance Project* (RUMP) provided a $5 million grant to develop the Caribbean Electric Utilities Corporation (CARILEC) as a central organization to source technical services and coordinate the delivery of joint services to power companies in the region. CARILEC upgraded technical and management skills of nine utilities, introduced comparative assessment systems, and standardized procurement as well as maintenance practices within the region. RUMP has repeatedly been characterized as one of RDO/C's more successful interventions.

Overall, RDO/C's capital spending on infrastructure was much higher than USAID's global average[26]. The program succeeded in raising the private sector's investment and production capacity. Its main deficiency was characteristic of most donor-funded infrastructure projects: the program lacked strong conditionality to ensure that beneficiary countries would maintain the infrastructure after most of those projects had been competed[27].

The infrastructure also made a substantial contribution to poverty alleviation and improvements in social services in rural communities. Further, by spending US$40 million (EC$108 million) on capital projects, RDO/C relieved the beneficiary countries of substantial tax and financing burdens. Without such funding, the governments would have been required to address at least some of the USAID-funded infrastructure priorities between 1984 and 1991.

4.3.5 Conclusions About USAID Impact Between 1984–1991

The philosophy of private sector-led growth drove USAID's Eastern Caribbean program between 1984 and 1991. RDO/C's $318 million program in Phase II was shaped by and fused with the Caribbean Basin Initiative "solution" of accelerated trade and investment.

In this second Phase, USAID committed three-quarters of its resources to activities which emphasized export growth and private sector investment. The CBI and the Grenada intervention transformed RDO/C's conventional goals, strategies and priorities into an increasingly proactive and innovative framework of development assistance. Nevertheless, USAID's main themes of democracy and basic human needs continued to permeate RDO/C's program during this period.

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The main conclusions about the impact of the program in this period are as follows:

- **The Caribbean Basin Initiative brought the trade and investment dimension to the forefront of LDC economic development planning.** The CBI package legitimized the concept of private sector-led economic growth by highlighting the importance of policies which emphasized international competitiveness, prudent economic management, and political stability. Moreover, it paved the way for much closer cooperation on hemispheric development initiatives among CARICOM countries and the rest of the Americas.

- **The RDO/C program led to far-reaching changes in economic priorities in Antigua, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent.** Conceptually, USAID's most notable accomplishment was that it helped to change the OECS' statist, public sector-driven orientation to a more balanced private/public sector commitment to economic development. This achievement was a direct result of RDO/C's strategy to combine project interventions with policy reform issues in order to strengthen both OECS economic management and the private sector's advocacy role at regional and national levels.

- **USAID's concentration of resources on private sector development, the productive sectors, and economic management led to significant increases in investment, export earnings, and employment in the OECS countries.** The demonstration effects of RDO/C's investment promotion programs stimulated private sector interest in new niche markets, many of which were just emerging as opportunities during the eighties. Simultaneously, the strengthening of economic management systems through fiscal reform, economic programming, and public sector training allowed the beneficiary countries to articulate more reasoned approaches to urgent trade, investment, and OECS integration issues at both the regional and national levels.

The program was not without flaws or inconsistencies. RDO/C's assertive style, penchant for innovative solutions, and desire to fill development "gaps" resulted in a number of stand-alone projects, some of which were not fully endorsed by the public sector. Projects like the *Caribbean Agricultural Trading Company, the Caribbean Financial Services Corporation, and the High Impact Agricultural Marketing and Production Project* were constrained by their own independence and had to function as appendages to established implementing structures. Only CFSC succeeded in assimilating its activities into the institutional framework of the sector it served.

Project autonomy also isolated key parts of RDO/C's policy agenda. Consequently, the Mission had limited success in convincing governments to eliminate monopolist marketing boards or preferential treatment for several export industries, although reforms in those areas could have helped improve the region's investment environment.

4.4 The Global Competition Phase, 1992–1994

The most noticeable feature of USAID's Eastern Caribbean program in the 1990s was the sharp reduction in resource flows and the downsizing of the Regional Office beginning in 1992. ***In this three year period, the Mission's budget was reduced so drastically that RDO/C could only obligate $20 million to five new projects***[28]. In November 1993, USAID made its decision to officially close the Regional Mission in FY96. The announcement to phase out USAID assistance to the region was precipitated by a combination of budgetary, global, hemispheric, and program considerations. RDO/C's downsizing was part of the Agency's decision to close 21 field missions around the world. USAID's resources were being stretched too thinly to cover both developing country and the former communist bloc countries.

After the fall of the Berlin wall in 1989, USAID was forced to re-prioritize its funding commitments to address the increasingly daunting challenges created by the collapse of communism in Eastern Europe and the former Soviet Union. Other factors that influenced this decision included the trade implications of the Enterprise for the Americas Initiative and other donor support in the Caribbean. Finally, and of no little significance, was the positive progress made by the OECS states, when compared with many developing countries in other parts of the world. Many viewed RDO/C as having accomplished its objectives, making it a victim of its own success.

After the fall of the Berlin wall in 1989, USAID was forced to re-prioritize its funding commitments to address the increasingly daunting challenges created by the collapse of communism

4.4.1 Themes and Priorities In Phase III

RDO/C's main themes in Phase III were to:

1) advocate the adoption of and continued adherence to economic policies that promote investment, productive employment, and export led diversification;
2) encourage the private sector to respond to a favorable policy environment;
3) promote the preservation and sustainable use of the natural resource base; and
4) encourage the continued evolution of stable democratic societies.

The main goal of the program was to convince the six beneficiary countries to adopt market policies that would lead to increasing productivity and employment in sectors where the region had a comparative advantage in the global economy. In that context, RDO/C's strategy was to support the region's transition to a more competitive world trade environment.

The Mission's program mix therefore emphasized project and policy interventions to support this strategy—either by extending on-going projects or by creating new ones. However, *the Mission acknowledged that the strategy could not be fully implemented because of the severe cutbacks in its proposed budget.*

In 1988 RDO/C chose to modify its "fast track" strategy to emphasize a more systemic and institutionalized approach to trade and investment in the nineties. Notwithstanding the limitations of its small budget, the Mission continued to promote *private sector-led* growth in the 1990s. However, the program's emphasis reflected a growing commitment to improving the investment climate as its foreign investor-led investment programs came to an end; consequently, it placed more emphasis on activities and policies directed at that priority.

The EAI philosophy is that* trade, investment, and international competitiveness *are the factors that have driven economic growth in the world's high-performing countries.

The Mission articulated similar changes in emphasis for its *agricultural and human resources development* programs. In agriculture, rather than targeting specific crops and niche markets, RDO/C shifted the focus of its programs into finding ways to alleviate storage, transportation, and export credit constraints in the OECS.

The Mission also reconfigured projects to help improve the export quality of crops in which some of the OECS countries appeared to have a comparative advantage. Likewise, RDO/C refined its approach to human resource development by adopting a strategy that focused on key areas of management education and training, advanced technical training, and vocational skills training/education. Responding to increasing global awareness of the importance of the environment and its particular application to the sustainability of tourism and agriculture as competitive economic activities, in 1991 RDO/C initiated a major new activity in Environment and Coastal Resources management.

4.4.2 The Significance of the Enterprise for the Americas Initiative

The introduction of the **Enterprise for the Americas Initiative (EAI)** in 1990 ushered in a new era of development in the Latin America and the Caribbean (LAC) region. The goal of this Initiative is to strengthen LAC economies through expanded trade, increased investment, and reduction of official LAC debt to the United States.

Essentially, EAI crystallized the United States' vision of promoting economic growth through trade and investment. The EAI philosophy is that *trade, investment, and international competitiveness* are the factors that have driven economic growth in the world's high-performing countries. The Enterprise for the Americas Initiative offers market access and debt reduction options to Latin American and Caribbean countries on the condition that they liberalize their trade and investment systems and dismantle protectionism.

It is important to clarify the differences between the Caribbean Basin Initiative and Enterprise for the Americas Initiative and the implications of the latter in terms of long term LDC development priorities. The CBI was a *one-way* concessional trade and investment package in favor of a select group of smaller LAC countries; the EAI is a *reciprocal* framework whose goal is to eventually eliminate the economic dependency and preferential treatment afforded countries under the CBI.

The implications for LAC countries, including the OECS, is that *these nations will be expected to share in the responsibilities as well as the benefits* that come with such extensive economic "partnerships" among participating countries. The primary responsibility of LAC countries will be to accelerate liberalization measures to eventually attain EAI status, for example under the North America Free Trade Agreement

(NAFTA) or under other "recognized" hemispheric trade, investment and/or debt reduction arrangements[29].

To create *open* investment climates, countries will have to remove market restrictions, expose financial sectors to competition, privatize state-owned businesses, codify the "rules of the game", and agree to internationally accepted dispute settlement procedures. Similarly, eligibility requirements for concessional debt reduction will, if appropriate, include implementation of International Monetary Fund or World Bank adjustment programs and the adoption of the kinds of investment reform measures described above.

RDO/C's efforts to encourage market reforms began in the mid-eighties, preceding the now visible conditionality of EAI.

The Enterprise for the Americas Initiative facilitates economic restructuring and liberalization through two Inter-American Development Bank (IDB) mechanisms: the Investment Sector Loan (ISL) Program and the $1.5 billion Multilateral Investment Fund (MIF). The Investment Sector Loan Program provides adjustment loans to countries committed to reforming their trade and investment regimes.

The EAI, through Multilateral Investment Fund grants and loans, also provides access to technical assistance (TA) to implement policy reforms; human resources development to meet the needs of the private sector as it expands; and credit, equity financing, and TA for small enterprise development[30].

To maintain its program, RDO/C was allowed to extend a number of on-going projects and to use some of those resources to address many of its key objectives.

Like the CBI, the Enterprise for the Americas Initiative has influenced the themes and goals of USAID's Latin American and Caribbean programs. RDO/C, like other Missions, refined its final programs to advance reforms in the Eastern Caribbean that, hopefully, will help the OECS qualify for access to Multilateral Investment Fund resources.

It is also important to point out that the Enterprise for the Americas Initiative allowed RDO/C to reinforce its long-standing policy dialogue agenda and did not supersede it. RDO/C's efforts to encourage market reforms began in the mid-eighties, *preceding* the now visible conditionality of EAI. Consequently, no major changes in on-going projects or in the design of new ones were necessary to adjust the program to the United States' broader hemispheric initiatives in the 1990s.

4.4.3 Implications of Reduced External Flows

A constant feature of the USAID program was the large amount of funds committed to economic development in the Caribbean. In the 1980s, the U.S. was by far the largest bilateral donor in the region. A 1990 comparison of donor assistance to the larger Caribbean area showed that U.S. assistance, at $177 million for that year, represented a third of the total amount of $529 million committed by the major industrial countries. Moreover, the U.S. funding level was at least twice that of any other donor[31].

Still, net flows to the region have been declining since the early eighties. Net external flows from all creditors, including private sources, dropped 68 percent—from US$1.3 billion in 1981 to $429 million in 1990. Bilateral and multilateral *grants* rose by 142 percent while net flows from official *loans* declined to a quarter of the 1981 level.

As this Retrospective shows, USAID was *increasing* its funding to the Eastern Caribbean during that period[32]. Nevertheless, the downward spiral of net flows, combined with the recent reduction in USAID funding and the fall-off in export earning from bananas since 1992, suggests that the region will have to continue to improve its investment climate in order to attract more private capital. To do this, the OECS will have to adopt the types of market reforms advocated under the Enterprise for the Americas Initiative. This would serve two purposes:

1) the OECS would become eligible for access to an exceedingly large pool of development resources under the Multilateral Industrial Fund; and
2) the reforms would improve the attractiveness of existing high growth sectors like tourism and offshore services and could broaden prospects for new investment in other activities in which the OECS can develop a competitive edge.

4.4.4 The Phase III Program

In its 1992 Program Objectives Document, RDO/C set forth a strategy which sought "to increase trade and investment that is environmentally sustainable." The program focussed on two strategic objectives—to increase and diversify trade, and to improve the management of natural resources.

For the revised strategy, the Mission reduced its proposed annual budget levels from $25 million a year to $18 million a year. However, while the strategy was approved, new program funding declined precipitously to $11.7 million in FY93 and $3.8 million in FY94. As a consequence of the funding cuts and the decision to end the program by 1996, planned new project starts were abandoned and three major projects initiated in FY91 and FY92 had to be substantially curtailed. The extent to which the Mission was able to accomplish its key objectives under such severe conditions is summarized below.

Increased and Diversified Trade

Given the progress made in economic management and lessons learned about the OECS' investment climate in the 1980s, RDO/C's priority was to emphasize sector-specific structural adjustment programs and policy dialogue in the early nineties. RDO/C's approach was to use projects and policy dialogue to:

1) encourage the adoption and continued adherence to policies that promoted accelerated structural reform;
2) continue to strengthen the private sector and encourage a stronger response to the policy environment as it improved;
3) improve the legal "rules of the game" as one of the important steps towards further improvements in the business climate; and
4) continue to expand exports.

To address the first set of priorities, RDO/C initiated the *Caribbean Policy Project,* to finance policy interventions through the OECS Economic Affairs Secretariat. The Mission also continued to support the improvement of the legal/judicial/regulatory environment under the *Caribbean Justice Improvement Project,* and *Caribbean Law Institute Project.*

Interventions used to encourage the private sector to respond to progressive changes in the policy environment included:

- Agricultural diversification and export development under the *Tropical Produce Support* (TROPRO) project and the *Agricultural Research and Extension Project* (AREP);

- Management development and skills training under the *Regional Management Training Project* and the *Caribbean Leadership Development Training Project.*

The Caribbean Policy Project (CPP), RDO/C's last major initiative undertaken at the end of FY92, was the centerpiece of RDO/C's Phase III efforts to facilitate policy change. It provided long and short term technical assistance to the OECS Economic Affairs Secretariat to carry out strategic work, such as trade sector assessments and policy analysis/options. The project also furnished operational support, such as specialized assistance to standardize and automate Customs data (ASYUCUDA) and technical assistance to strengthen national accounting and statistics systems. CPP was one of the projects that RDO/C had to substantially curtail due to the close of the program, and results were largely limited to the operational level. This was partly because the OECS governments felt that policy-based management would be premature without first strengthening the *systems* needed to formulate policy in the first place.

The Caribbean Law Institute Project (CLIP). The CLI Project was established in 1988 to promote law reform in the Commonwealth Caribbean, especially in the area of trade, commerce, and investment and to ensure that appropriate legal reforms, in support of trade liberalization, would be undertaken. The project's main responsibilities were to develop a framework for law revisions, reform, and harmonization activities; prepare drafts of company, bankruptcy, and insurance laws to replace outmoded or nonexistent ones in various Eastern Caribbean states; and to carry out a commercial law survey.

The project also promoted activities leading to the removal of a number of constraints to private sector capital formation and equity financing mechanisms in the region. By 1994 the Law Institute had developed the necessary draft legislation. However, OECS governments have been slow to enact these laws.

The Caribbean Justice Improvement Project (CJIP). CJIP was created in 1986 to strengthen legal systems in the Eastern Caribbean and Belize. Administered through a grant to the University of the West Indies, the project addressed specific institutional legal system deficiencies, including those in the law revision process, law libraries, database and information retrieval systems, the legal aid system, and the training of paralegals. The project also provided funding to renovate 23 courthouses and publish revised laws. CJIP's training activities and its support to the law libraries has been notably successful. Overall, the project has served to improve the operational efficiency of the judicial system in the Eastern Caribbean.

The Regional Management Training Project (RMT). The RMT project was designed to institutionalize the successful training initiatives of a predecessor pilot project. Started in 1992, the project created the Centre for Management Development (CMD) whose function was to develop and provide management training through a combination of degree-level and specialized short-course programs. So far, the Centre has introduced an Executive MBA program, trained 253 senior managers, trained 60 instructors in case study methodology, and developed 57 cases for future programs. The management center has attracted private funding and is now developing profit-making short-courses to market to the private and public sectors.

The *Caribbean Leadership Development Training Project (CLDT)* was designed to provide professional, management, and vocational training to strengthen export promotion and marketing efforts, achieve manufacturing and agribusiness diversification and reduce unemployment, particularly among women and young people. The project, which got underway in 1991, exceeded its targets in all categories of training. A total of 1,890 long term and short term scholarships were awarded and follow-up evaluations by the trainees and their supervisors were overwhelmingly positive.

The Tropical Produce Support (TROPRO) and the Agricultural Research and Extension Projects (AREP). TROPRO and AREP were created to promote exports through strengthening the production, post harvest, and marketing systems of nontraditional crops. These projects, in contrast to the "independent" HIAMP project, focused on supporting smaller agribusinesses through regional mechanisms like the Caribbean Agricultural Research and Development Institute (CARDI) and the OECS' Agricultural Diversification Coordination Unit (ADCU).

Both projects made notable contributions to promoting exports: AREP allowed CARDI to address over 100 technological constraints and undertake more than 450 demonstrations and/or validations of alternative approaches to production. In the process, the project transferred improved techniques and knowledge to over 4,000 farmers. TROPRO also made impressive contributions to strengthening the region's nontraditional export base by providing quality, production, and post harvest services and support to farmers in the Windward Islands. This assistance helped increase nontraditional exports from $27 million in 1989 to $40 million in 1993, reversing the decline which occurred during the banana boom in the second half of the eighties. Based on this performance, the OECS has agreed to institutionalize key TROPRO elements after USAID support is completed.

4.4.6 Management of Natural Resources

RDO/C's biodiversity and environment program involved environmental education, legal/policy reform, and comprehensive planning, pilot watershed, and marine management activities. The Mission's first major activity in this area was funding of Country Environmental Profiles for the six OECS member states, completed at the end of the 1980s.

The Environment and Coastal Resources (ENCORE) Project was initiated in 1991 to support local environmental initiatives in the Eastern Caribbean. So far, local site work has been initiated in **Dominica** and **St. Lucia,** and regional initiatives are underway in pesticide legislation and regulation, water quality monitoring and environmental education. The project has involved governments, NGOs, and local communities in the establishment of national parks, tour guide associations, and improved sanitation administration. These represent important first steps toward a long term sustainable environmental management program. The ENCORE project was transferred from RDO/C to USAID's Global Bureau in 1995, and will continue beyond RDO/C's close as part of the International Coral Reef Initiative.

4.4.7 Conclusions About USAID Impact Between 1992–1994

RDO/C's goals and strategies during Phase III reflected a more patient approach to economic development than in its prior eight years of assertive program design and implementation. As it did in Phases I and II, the Mission developed themes and priorities which were relevant and focused. In Phase III, the Mission's priorities were to help the OECS adapt to the increasing demands of global competition.

It would be inappropriate to assess the impact of RDO/C's program in Phase III in terms of its stated goals and objectives since the Mission was denied the funding it requested and the time needed to support the program necessary to accomplish those goals. Nonetheless, early indications are that the Mission's revised strategy of promoting agricultural exports through a regional institutional framework have been very positive. Similarly, the private sector's endorsement of the Centre For Management Development, if sustained, could help increase its capacity to take advantage of future improvements in the investment climate. However, despite some success with the Caribbean Policy Project, USAID's efforts to facilitate market reforms have not been as successful as it would have liked, especially in light of the overriding trade and investment implications of the Enterprise for the Americas Initiative.

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[10] This classification was developed by Datex for analytical purposes and was based on our comprehensive assessment of the development milieu and the changes in goals, strategies, and priorities over the life of the program. Dividing the program into three phases made it easier to assess impact by relating assistance to the development climate during those periods.

[11] The term "country-specific" refers to projects that were designated as exclusive country projects. Bilateral projects are country-specific projects plus regional projects for which the allocation of funds could be identified through analysis of project papers and progress reports. Analysis of bilateral spending was carried out by Devres Inc., in their study, *Caribbean 2000: Strategic Program and Management Options for Future USAID Assistance to the Caribbean,* in 1993.

[12] This long term goal was established in the first County Development Strategy Statement of 1978 and restated in slightly different ways in subsequent CDSS' between 1978 and 1983.

[13] A full description and final evaluation of the Caribbean Development Facility Program and the CDF I, II, III, & IV Projects funded by USAID was carried out for USAID by Booz, Allen & Hamilton, Inc. in November 1984.

[14] Established in June 1977, CMCF allowed regional Central Banks to settle CARICOM trade transactions in U.S. dollars. The facility collapsed in 1983 because of acute foreign exchange shortages in Jamaica and Guyana and because it was also used to provide balance of payment support without precise operating guidelines.

[15] The $10.5 million BHNES Project was extended in 1984 as the Basic Needs Trust Fund, a new $19.7 million USAID grant, again administered by the CDB. The fund was still in existence in 1996 and was being funded by other bilateral donors. Datex was unable to find data to quantify BHNES' 1978-83 accomplishments.

[16] According to IBRD, in *The Caribbean Common Market: Trade Policies and Regional Integration in the 1990s,* intraregional trade was most buoyant when the region received CGCED Balance of Payment Support. The decline in those flows to the MDCs after 1984, together with economic difficulties, led to a decline in CARICOM trade.

[17] The CBI spawned Canada's CARIBCAN (June 1986) and led to improvements to the EEC/ACP Lome IV trade provisions (December 1989), the creation of the Enterprise for the Americas Initiative (June 1990), the Venezuela/CARICOM Agreement (October 1992), NAFTA (1992), and the Colombia/CARICOM Agreement (July 1994)

[18] For an evaluation summary see *"Impact Evaluation of USAID Policy Reform Programs in Dominica and Grenada"*. USAID Impact Evaluation Series. Impact Evaluation Report No.72 by Joseph Lieberson, et al. January 1990.

[19] Jamaica's Chambers of Commerce and other special interest groups use the Private Sector Organization of Jamaica (PSOJ); Guyana has established the Private Sector Commission, and Barbados the Private Sector Agency to address key issues with Government. Some OECS organizations share overhead costs and function from the same location, but have not yet created similar coordinating organizations.

[20] Those programs include the *Caribbean Financial Services Corporation, the Caribbean Project Development Facility, the High Impact Agricultural Marketing and Production (HIAMP) project, the Caribbean Agricultural Trading Company (CATCO), and the Public Management and Policy Planning Project.*

[21] Based on data in 1) *The Caribbean Common Market: Trade Policies and Regional Integration in the 1990s;* 2) *Caribbean Region: Coping with Changes in the External Environment;* and 3) *Economic Policies for Transition in the Organization of Eastern Caribbean States.* IBRD, Caribbean Division. Country Department III. LAC Region. 1994

[22] One of the more useful analytical attempts to quantify impact was carried out as part of the *Evaluation of the Portfolio of RDO/C's Private Sector Office*, Second Program Report, by Louis Berger International Inc., in February 1988. The two leading investment-generating projects were the Project Development Assistance Project (PDAP) and the Accelerated Private Sector Assistance Project (APSAP).

[23] A misperception was that USAID wanted to get the Windward Islands to drop bananas in favor of other high value crops. Through bilateral programs, RDO/C actually supported banana rehabilitation efforts in **St. Vincent, Dominica,** and **St. Lucia** by funding infrastructure and agricultural support programs in Phases I and II. The Mission's position has been that its strategy was to encourage economic diversification to reduce dependency on one export crop.

[24] HIAMP was not the first USAID attempt to promote high value horticulture in the Caribbean region. The $20 million Agro 21 program in Jamaica was also unable to attract U.S. or foreign investors during the same period despite a much more integrated package of investor search, joint venture services, and investment concessions than the HIAMP program. HIAMP was constrained by limited airfreight, exclusion from export credit programs, and limited post-harvest facilities.

[25] James Packham/ADCU in *Linkages Between the OECS Fresh Produce Sector and Tourism, 1994*, points out that OECS exporters still supplying the low end of their import markets. The markets for high value produce within the OECS as well as the broader Eastern Caribbean tourism industry continue to offer considerable export growth potential.

[26] The infrastructure portfolio accounted for 28% of USAID's Eastern Caribbean obligations compared to 5 to 10 percent of its global portfolio. However, the source of development resources, use, and impact has been similar to that of other USAID country programs. See: *Capital Projects: A Synthesis of Findings. Report No.8.* CDIE, AID/Washington. 1994.

[27] Globally, the issue of host country infrastructure maintenance plagues most donor-funded projects and has led to extensive criticism of the repetitive use of development resources, in many cases to re-build infrastructure previously financed with other donor resources. From: *Rural Roads Report No.5* on Colombia, Kenya, Liberia, Honduras, Thailand, and Jamaica - for USAID's Bureau for Program and Policy Coordination. Washington D.C. March 1982.

[28] The 1992–94 program portfolio also contained projects that were still underway from the previous Phase. Those projects focused on continued infrastructure rehabilitation, environmental profiles, management training, private sector advocacy, small enterprise development, tropical produce support, agricultural research and extension, and agribusiness investment.

[29] The Enterprise for the Americas Initiative is the framework under which various free trade agreements (e.g. NAFTA), trade and investment agreements (e.g. CARICOM, MERCOSUR), and bilateral debt reduction arrangements (e.g Public Law 480 Debt, United States Ex-Im Bank debt swaps) can be developed or refined to achieve the objectives of the Initiative. The commitment to create a Free Trade Area of the Americas (FTAA) at the Hemispheric Summit in December 1994 made the EAI a common goal and responsibility of all participating countries in the Caribbean and the Americas.

[30] The OECS countries are not IDB members and will therefore have to access MIF resources through the region's multilateral institution, the Caribbean Development Bank.

[31] A comprehensive profile of approaches and programs of other donors is presented in *Caribbean 2000 Strategic Program and Management Options for Future USAID Assistance To The Caribbean.* by Devres, Inc. December 27, 1993. The countries covered were the CARICOM MDCs and LDCs, Haiti, and the Dominican Republic. There is no separate data for the OECS sub-region.

32 It is important to differentiate between *bilateral* and *multilateral* donors. Our ranking of donor assistance refers to *bilateral* programs. In that context, the U.S. is the largest bilateral donor. The European Community is the largest multilateral donor. European Community assistance grew in the eighties and is still being maintained at relatively high levels under Lome IV.

33 The six projects were *Non-formal Skills; Presidential Initiative for the Islands Caribbean; Caribbean Leadership and Development Training; Health Care Policy Planning and Management; AIDS Communication and Technical Services; and Drug Abuse Prevention and Education.*

5. Overall Impact, Lessons Learned, and Implications for the OECS Countries in the Post USAID Era

USAID's $685 million program between 1978 and 1994 was highly successful. The program took on unprecedented challenges, covered diverse issues, and persuaded governments, donors, and regional institutions to rethink and restructure traditional perceptions and approaches to economic development.

Some aspects of RDO/C's work were conventional while others were highly experimental. In some cases, they were quite unorthodox when compared with the methodologies and content of other donors' initiatives. RDO/C's programming methods and management style varied considerably during its 18-year existence: conformist and institutionally focused in its early years; assertive and creatively independent in its growth years; and more patient and realistic during its final years in the region.

The program took on unprecedented challenges, covered diverse issues, and persuaded governments, donors, and regional institutions to rethink and restructure traditional perceptions and approaches to economic development.

During the Growth Phase of the program from 1984 through 1991, USAID's work was much more comprehensive, complex, and controversial than at any other time. RDO/C programming was heavily focussed on one key issue, namely **export-led growth**. This was in contrast to Phase I, which largely focused on infrastucture and public sector institutional strengthening. Programs like CFSC, HIAMP and CARILEC in Phase II reflected RDO/C determination to extend its private sector, agricultural and infrastructure portfolios with *direct* and independent project interventions that were not linked to prior programs channeled through public sector institutions. During this period, the Mission's management style was also more proactive and unconventional, invoking criticism in some circles about its top-down approach to development.

5.1 OECS Economic Performance

OECS growth from 1983 to 1990 was impressive by world standards, averaging more than six percent per annum. This record was among the best in Latin America and the Caribbean.

Several factors influenced this achievement:

- Expanding markets for traditional exports,
- Success in the highly competitive tourism industry,
- Sound economic management, and
- High levels of donor support.

In contrast, performance during the first three years of the 1990s was marked by a slow down in growth to an annual increase of 3.4 percent. This slower growth was due to a combination of factors, including damage to agricultural crops, tourism facilities, and other infrastructure from Hurricane Hugo in 1989. Recovery after 1990 was constrained by an economic slowdown in OECS donor countries, particularly the United States, the United Kingdom, and Canada. These countries represent the region's main markets for exports and tourism.

OECS growth from 1983 to 1990 was impressive by world standards, averaging more than six percent per annum.

Growth was also been hindered because the region's capacity to compete internationally has declined. While the OECS region continues to experience tourism-driven growth, recent studies on the future of the island economies indicate that export competitive-

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ness has declined in two key areas: *traditional agriculture and light manufacturing.*

Why did this occur? A partial explanation is that windfall benefits from the banana boom and rapid tourism growth in the late eighties pushed up production costs in the agricultural sector as a whole. At the same time, expansion in the service and construction sectors contributed to increasing labor and other input costs in the manufacturing industry. As a result, production costs in the OECS have become noticeably higher than in other offshore locations. This has led to a substantial withdrawal of Caribbean Basin Initiative-induced export businesses from the manufacturing sector.

It is important to point out that the high performing OECS experience in the 1980s was similar to East Asia in their early development years. OECS' investment exceeded 30 percent of GDP and growth ranged from four to seven percent annually. Investment ratios averaged 20 to 30 percent in Hong Kong, Korea, Malaysia, and Taiwan and output grew at about six percent annually between 1960 and 1985.

The differences were that the Asian countries had higher savings rates, smaller public sectors, and lower balance of payments and current account deficits. The East Asian governments also played a much stronger role in supporting private sector-led growth by rapidly adjusting their policies to take advantage of changes in the economic environment.

The **Caribbean Group for Cooperation in Economic Development (CGCED)**, in *Economic Policies For Transition In The Organization Of Eastern Caribbean States*, suggests that the OECS should establish a framework for transition to global competition. In that context, USAID's extensive support of economic development initiatives offers a valuable point of reference in terms of lessons learned about approaches to economic development in the past and development issues which need to be addressed in the near future.

5.2 Overall Impact of USAID Assistance to the Region

The impact of RDO/C's assistance to the Caribbean can be summarized as follows:

- **The Program was very successful between 1978 and 1983.** During Phase I RDO/C directed its projects at urgent development constraints and played a pivotal role in helping the OECS and larger CARICOM countries address basic development deficiencies facing the region.

- Commendable accomplishments during Phase I were the **strengthening of regional institutions, support for post-OPEC economic recovery in the mini-states, and the creation of the Caribbean Group for Cooperation in Economic Development (CGCED).**

- **RDO/C's most impressive achievement in the 1980s was its success in facilitating the change from a statist public-sector driven orientation to a balanced private/public sector commitment to economic development.** As a result of RDO/C's assistance to strengthen economic management and the private sector's advocacy role, governments now regularly consult with private sector organizations on policy issues.

- **USAID programs had a lasting "demonstration effect" on private sector development.** This led to the private sector's use of more entrepreneurial approaches to new business opportunities. To a large extent, this change was engendered by RDO/C's investment promotion and productive sector programs.

- USAID helped the OECS governments strengthen their capacity to address emerging trade, investment, and integration issues by improving **economic management systems in the public sector** and by **helping the public sector rethink its conventional approaches to economic development.**

- The program influenced the private sector and public sector's views on the strategic importance of human resources development and created a **growing awareness and commitment to business management and skills training.**

- **The program's impact on economic growth was unquestionably positive,** especially during the

1980s. **However, RDO/C's targets were perhaps too ambitious** given that the region did not have the capacity at that time to respond to the sudden trade and investment opportunities emerging out of the Caribbean Basin Initiative.

- **The Mission's productive sector programs opened up new prospects for expanding the region's export base.** These programs, particularly those interventions directed at manufacturing investment and employment generation, created business opportunities and increased jobs and export earnings.

- **USAID's investment promotion efforts showed that the region needs to place more emphasis on streamlining its investment processing systems and on adopting cohesive economic policies that favor export-competitive industries.**

- **USAID's export thrust identified the types of changes required to ensure that the region would be able to continue to attract and stimulate new investment.** In that context, the region's lack of success in attracting foreign investment in the nontraditional agricultural sector served to confirm its nascent status and limitations in that area. These types of concerns have forced OECS governments, particularly in the Windward Islands, to re-assess the appropriateness of their longer-term productive sector strategies and have led to more realistic perspectives on future growth possibilities.

- **RDO/C's efforts to encourage the OECS countries to adopt market reforms were only marginally successful.** This issue has been a key priority of the Mission's program in the nineties but was severely compromised by USAID's decision in 1993 to phase out RDO/C operations by 1996.

- **The "fast track" approach between 1984 and 1991 helped the region establish a development base for export-led growth,** laying the foundation for stronger private sector initiatives in selective niche areas in the early nineties.

5.3 Lessons Learned

The lessons learned from USAID's development program and its expenditure of $685 million on a diverse range of projects and policy issues can be summarized as follows:

- **Beneficiary countries are more receptive to programs that produce rapid results and reinforce established policies than they are to new ideas.** USAID's work produced more positive and sustainable results in the areas of economic management, human resources development, health, and education than it did in the productive sectors.

- **The longer term impact of capacity building is stronger than that of direct interventions designed to jump start economic transformation.** RDO/C's most durable results came from increased institutional capacity and changes in orientation of both the public and private sectors.

- **Economic transformation, to be most effective, must be driven by the beneficiary countries themselves.** RDO/C's efforts to encourage market reforms and diversification were less succesful than expected due to the general absence of a strong consensus about the importance and urgency of fundamental changes. This was especially true when the countries lacked the information systems, the human resources capacity, and the financial resources to adopt such strategies.

- **Export and investment promotional efforts are important but not sufficient if the underlying policy framework does not provide and sustain a competitive advantage.** OECS' preferential trade arrangements for traditional crops and industries mitigated against adoption of competitive economic development strategies. Consequently, without cost or other advantages to offer, efforts to stimulate investment faltered.

- **A regional approach to development assistance can be successful, at least where there is a true regional identity and effort to address common**

problems through regional solutions. RDO/C had a positive impact on the region and its most important and durable successes were achieved in and through regional institutions. The level of influence and resources the U.S. was able to bring to the program may limit its replicability. Individual country missions might have had more success in getting the national governments to adopt policy reforms, although this is far from certain.

5.4 Implications For The OECS Countries in the Post-USAID Era

In terms of future donor assistance, the OECS region will need to compete for funds in an era characterized by a shift toward more commercial financing of development programs, prudent fiscal management, conducive investment climates, export competitiveness, global competition, and increasing strategic adjustments to hemispheric trade and investment initiatives.

In the short term, OECS development is likely to be constrained by the reduction in donor flows from USAID and other primary donors as budgets are reduced and as priorities change. In terms of maintaining access to essential external and capital flows, the region needs to expand its scope for accessing and utilizing resource flows from both donor agency and private sources.

Three options should be considered by the OECS countries:

(1) **Refine the strategy to access development assistance.** This would involve developing direct linkages with private sector organizations and individual industrial country government agencies and switching to an *en bloc* membership strategy to access funding from the hitherto unaccessible larger funding agencies like the Inter American Development Bank (IADB). In the case of the IADB, the OECS should focus on meeting the prerequisites for accessing the Multilateral Investment Fund (IF) and the Investment Sector Loan (ISL) programs since those resources can help facilitate economic diversification, increase competition, and improve the efficiency and cost-effectiveness of the financial sector.

(2) **Accelerate the scope and depth of financial intermediation in the sub-region and within the Caribbean basin.** Stronger steps will have to be taken to mobilize excess liquidity within the CARICOM region and liberalize financial sector controls in order to maximize cross-border flows within the area. For example, the OECS, Barbados, and Trinidad and Tobago should accelerate the integration of the regional stock markets; eliminate regulatory impediments or levies on financial transfers between countries; and remove alien (property) taxes on investments by CARICOM nationals. Finally, within the sub-region itself, governments, under the guidance of the Eastern Caribbean Central Bank, should continue to adopt policies and fiscal initiatives to facilitate the development of an OECS securities market

(3) **Expand the scope for replacing public sector investment with private sector investment flows for resource-intensive sector development.** The OECS countries, with the exception of St. Vincent and St. Lucia, have generally failed to generate budget surpluses on a sustainable basis to support their public sector investment programs. As donors withdraw funding, the OECS will have to depend on commercial lines of credit (or their donor financed equivalent—less concessional loans) for such purposes.

One way to circumvent this is to identify revenue generating "public sector" projects that could attract private capital. Examples in the Eastern Caribbean include cruise ship berths, in-bond duty free shopping centers, electric utilities, and regional airline services. That approach would reduce the governments' capital requirements without compromising their infrastructure and development needs in these critical areas.

As a final note, ***the USAID's withdrawal should not diminish the impact, lessons learned, or the increasingly urgent need to adopt reforms and introduce strategies that strengthen the region's export competitiveness as it enters the 21st Century.***

USAID Economic Assistance

to the

Eastern Caribbean, 1978–1994

Volume II

Prepared for:

The United States Agency for International Development
Regional Development Office/Caribbean

Prepared by:

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March 15, 1996

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Annex 1

Scope of Work

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SECTION C - DESCRIPTION/SPECS./WORK STATEMENT

I. PURPOSE

The purpose of the proposed evaluation is to determine the overall impact of assistance provided through the USAID Regional Development Office for the Caribbean (RDO/C) from its inception in 1978 through FY 1994, to assess the impacts of specific program elements and to document lessons learned from the regional program.

II. BACKGROUND

RDO/C has provided economic development assistance to the Eastern Caribbean since 1978. Through 1994, USAID has provided approximately $637 million to the region. Because of the economic, political and geographic diversity and small size of the countries in the region, much of this assistance has been channeled through regional institutions such as the Caribbean Development Bank (CDB), the Caribbean Agriculture Research and Development Institute (CARDI), the Organization of Eastern Caribbean States (OECS) and the University of the West Indies (UWI).

Primary Beneficiaries: Antigua and Barbuda, St. Kitts and Nevis, St. Vincent and the Grenadines, St. Lucia, Grenada, and Dominica.

Secondary Beneficiaries: Guyana, Montserrat, British Virgin Islands, Turks & Caicos, Trinidad and Tobago, Barbados, Belize, and Suriname.

From its inception, the program has sought to foster economic cooperation and regionalism by channeling U.S. economic assistance through regional institutions. However, early in the program, the economic and political circumstances of the region led the Mission to conclude that it was not enough to focus only on long-range development of regional institutions but that the program should also address urgent, short-term needs which threatened the region's stability. The Mission also concluded that this required a mix of regional and bilateral assistance. Undoubtedly stimulated by foreign policy concerns about interest within the region in radical approaches to economic problems (the Cuban model), the level of U.S. economic assistance rose from about $20 million in FY 1978 to $50 million in 1982, and peaked at $103 million in 1984.

The crisis and U.S. intervention in Grenada in 1983 and the Caribbean Basin Initiative were major developments which gave further impetus to the program of assistance during the mid-1980s. The principal emphasis of the USAID regional strategy for that period was employment and export development, while strengthening regional institutions remained as a secondary objective.

Within this framework, RDO/C's program was spread across the range of USAID sectoral interests. For example, by 1982 the Mission had assembled an active portfolio of 24 projects ($122 million) in agriculture, population, health, education, employment, credit, investment, energy and housing.

This type of broad program distribution continued through the rest of the 1980s. The number of projects grew modestly with significant additions in economic recovery/structural adjustment and infrastructure programs, while the LOP value of the portfolio more than doubled by the end of the decade. By then, USAID Agency-wide emphasis on focusing programs, combined with substantially reduced resources for the region, resulted in a new, more narrowly focused strategy and a phasing down of the program. In November 1993, USAID announced its decision to completely close the program by 1996.

III. STATEMENT OF WORK

The evaluation will be conducted in two phases. The first phase will be a broad desk-based evaluation. The second phase will follow-up with information collection in the field on specific program areas as identified in phase one.

A. Phase I. Desk Evaluation

The contractor will gather information about USAID's Caribbean Regional program and about development in its primary beneficiary countries by reviewing documents available in USAID/Washington and in RDO/C in Barbados, supplemented with interviews of USAID personnel and other informants readily available in Washington and Barbados. Based on this information the contractor will:

- identify the main USAID program areas and themes, and levels of resources devoted to each over the period of assistance, and, to the extent feasible, how the resources were distributed among countries;

- describe conditions and changes in the region over time, including regional institutions and economic, social, political and environmental conditions of the primary beneficiary countries;

- relate USAID assistance to these conditions and changes, including a preliminary assessment of whether USAID assistance was appropriately focused and effective; and

- draw lessons which may be learned from the experience for future development assistance efforts.

While limited field investigation focused on specific sectors or areas is contemplated in Phase II, as described below, the contractor will, in Phase I, examine available documentation to provide a preliminary assessment of USAID assistance and identify the need/opportunity for further field investigation in each of the following sectors/areas:

- -Training
- -Health/Population
- -Infrastructure
- -Agriculture
- -Private Enterprise
- -Law and Justice

The contractor may also identify other areas or sectors warranting specific attention.

In each case, the contractor will evaluate USAID assistance to answer the following questions to the extent possible from the information readily available:

- What has been the overall impact of assistance relative to the overall level of USAID investment and how have the benefits been distributed among socio-economic groups?

Much of the program has been aimed at regional institutions and macro economic performance rather than directly targeting the poor or other specific groups. At the same time, there is a dearth of information on poverty in the region over the period of assistance. The contractor will examine the distribution of benefits within this context and identify appropriate indicators and analytical methods to overcome the information constraints.

- Has the assistance produced sustainable results in terms of institutional sustainability, program sustainability, and/or continuing benefits?

The contractor will propose appropriate methodologies and analytical approaches to overcome the limitations in availability and accuracy of existing data in order to achieve the purposes of the evaluation. In addition to data constraints, there will be difficulties determining the extent to which USAID assistance contributed to (or mitigated) changes which have occurred. The contractor will make reasonable efforts to attribute impact, including, e.g., analyzing USAID's assistance within the context of other factors.

The contractor will prepare a full report on its findings in Phase I. The report will be accompanied by recommendations for field investigation (Phase II) which will:

-identify and prioritize sectors or areas for further investigation based on relative importance and availability of information; and

- suggest approaches or methodologies to develop the information called for in Phase II described below.

B. Phase II. Indepth/Sector Assessment

Based on the recommendations presented in the Phase I Report, USAID will select the sectors on which further field work will be carried out in Phase II. USAID, at its discretion, may require the contractor to perform Phase II, or may arrange with others to carry out all or a portion of the additional work.

Major evaluation issues/questions to be addressed:

1. **Comprehensive Assessment**. One objective of the Phase II effort will be to confirm or elaborate on the findings of Phase I regarding the overall impact of the U.S. assistance program on the region and the lessons to be learned from the experience, based on the additional field investigation.

2. **Sector/Area Assessments**. A second objective of Phase II will be to fill specific information gaps in key sectors or areas in order to round out the comprehensive assessment as well as assess specific sectors or areas of assistance for which such assessments have been identified as of high priority as a result of Phase I. The following are illustrative sectors and questions to be answered. The final selection of areas to be further explored in Phase II may include these and/or other sectors or program areas.

a. **Training.**

-What was the profile of trainees by socio-economic background, gender, levels of education attained, job type and institutional affiliation?

-Since completion of the training, what is the profile of trainees by job types and institutional affiliations?

-What impacts have the training had on the trainees (employment, promotion), on the institutions with which they are affiliated, and on the overall human resource needs of the region?

-How and why have there been differences in impact associated with the following factors:

-short-term vs. long-term training;

-management vs. technical training;

-gender?

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b. **Agriculture.**

- To what extent have small farmers been involved and benefitted from the assistance?

-What has been the overall impact in terms of changes in the subregion's agricultural policies, structure and product base (range and competitiveness).

c. **Private Enterprise.**

-How has USAID's program contributed to changes in the private business climate, including policies, regulations, financial services, levels of private investment, trade competitiveness and employment.

-What has been the impact of USAID's assistance on small and micro-enterprises? Further questions with regard to small and micro-enterprises are:

-What was the profile of assisted enterprises by socio-economic background, gender and type of business?

-What impacts have the assistance had on the enterprises assisted (employment, profitability)?

-Have there been broader impacts (backward and forward linkages, availability of goods and services to the community, etc.)?

-How and why have there been differences in impact associated with the following factors:

-technical assistance vs. training vs. credit, alone or in combination;

-gender or economic status of the entrepreneur?

3. **Lessons Learned**. The Caribbean regional development assistance experience provides an opportunity to examine and learn from a variety of development assistance approaches and conditions. While some of these lessons may be implicit in the impact variations which may be evident as a result of Phase II of the evaluation, the Phase II assessment will provide a more explicit analysis and presentation of lessons learned from the overall experience, with particular attention, but not limited to the following:

- delivering assistance through various types of regional entities as compared to bilateral programs;

- building or strengthening regional or national institutions as compared to financing capital projects and direct provision of goods and services;

- providing assistance in response to political concerns or crises; and

- providing assistance to very small countries.

- developing project sustainability.

B. Evaluation Methodolgy

Selection of methodologies will to a large extent be the responsibility of the contractor, which is expected to rely heavily during Phase I on available evaluations and other program documents supplemented as necessary by interviews and, during Phase II, by field investigations. Rapid and low cost methods of gathering information will be preferred. The contractor will be required to:

Phase I

- review documents available in USAID/W and RDO/C, including previous project and program evaluation reports. The contractor may also be required to review World Bank, IMF, Eastern Caribbean Central Bank documents for overall economic and social data.

- identify and interview representatives of USAID and counterpart organizations (past and present).

Phase II

- develop instruments (questionnaires) as necessary and utilize these to conduct sample surveys of populations (participants/beneficiaries) - surveys may be by telephone, mail, interview, or a combination.

- schedule site visits where necessary to supplement telephone or mail surveys with personal interviews and observe physical conditions.

The Contractor will be required to collaborate extensively with USAID Mission staff to share experiences and information and to define or re-define strategy.

C. Personnel and Skills Required

The contractor will determine and propose the team composition it considers optimal for the task. The team should include someone who can demonstrate a thorough understanding of the local viewpoint who has lived in the Caribbean a significant

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number of years.

D. Time Frame

The contractor will base its proposal on the level of effort it estimates will be required to complete the desk evaluation (Phase I) within the following time frame:

Phase I

- December 1994
  Begin literature search;
- January 1995
  Submit work plan;
- February 1995
  Submit draft report and recommendations for Phase II for review by RDO/C;
- March 1995
  Complete final Phase I report and Phase II workplan.

The time frame for the indepth/sector assessment (Phase II), which may be negotiated as a follow-on contract with the contractor and/or arranged for others to carry out all or a part of the additional work, is as follows:

Phase II

- May 1995
  Begin field survey work in consultation with and participation by RDO/C staff in regard to specific sector assessments;
- July 1995
  Submit draft report for review by RDO/C;
- August 1995

  Submit final Phase II report.

E. Deliverables/Reports

The evaluation is to be initiated as soon as possible after the contract is signed. Based on a preliminary document review in USAID/Washington, the contractor will prepare a work plan for submission to RDO/C. A representative of the contractor may need to travel to Barbados to consult with RDO/C concerning the work plan. The contractor staff will complete their work in Washington and then come to Barbados to review the Mission's documents and interview RDO/C employees. The contractor will submit a draft Phase I report to RDO/C for review with the Mission before contractor personnel leave Barbados. At the same time, the contractor will submit recommendations for the sectors to be further investigated under Phase II and propose ways in which the required information can be gathered. The contractor will complete the final Phase I report incorporating comments from RDO/C and a work plan for Phase II as negotiated with RDO/C.

F. Logistic Support

The contractor will report to the RDO/C Regional Director. Day-to-day coordination will be with the Chief of RDO/C's Program Development Office. The contractor will be responsible for providing its consultants all facilities, including computer, printer and photocopier support in Washington. For work in Barbados, RDO/C will provide office space, and desk top computer, printer and photocopier support. The contractor will provide its own portable computers and any other equipment required for its work in other locations or outside of regular office hours. The contractor will make all arrangements for travel, accommodations and appointments for interviews.

Annex 2

List of Persons Interviewed

A limited number of people were interviewed during this consultancy. The reasons: First, many people had moved on to other jobs. Second, the budget for this consultancy was limited and did not provide for travel to the various Islands to interview those still in key positions in regional organizations. Third, RDO/C had already been downsized from over 60 to just four U.S. permanent staff. Interviews were therefore limited to the following persons:

1. Paul Bisek	Mission Director, USAID/RDO/C, Bridgetown Barbados.
2. Darwin Clarke	Special Assistant to the Director, USAID/RDO/C Barbados.
3. Richard Owens	Chief, Agriculture Office, USAID/RDO/C Barbados.
4. Howard Batoon	Project Officer, Agriculture Office. USAID/FODIC Barbados.
5. Sylvia Sartuels	Project Officer, Training and Human Resource Development Office, USAID/RDO/C Bridgetown Barbados.
6. Peter Medford	Project office, Private Sector Office USAID/RDO/C Barbados.
7. Brinley Selliali	Project Officer, Infrastructure Office USAID/RDO/C.
8. Rebecca Cohn	Chief, Project Development Office. USAID/RDO/C Barbados.
9. Sir John Stanley Goddard	Chairman, Caribbean Financial Services Corporation. Bridgetown, Barbados.
10. Sir Neville Nicholls	President, Caribbean Development Bank, Wildey St., St. Michael, Barbados
11. Ruper Mullings	Former Vice President, CDB, Wildey Barbados.
12. Patterson Thompson	Former Executive Director, Caribbean Association of Industry and Commerce, Port of Spain, Trinidad
13. James Holtaway	Former Mission Director, USAID/RDO/C Washington, DC.
14. William Wheeler	Former Mission Director, USAID/RDO/C Washington, DC.
15. Robin Phillips	Program Officer, USAID/W and former program officer at RDO/C during the 1980s.

Annex 3

Documents Reviewed

I. Action Plans

1. Annual Action Plan, Budget Submissions and CDSS FY 87 -88. United States Agency for International Development, Regional Development Office/Caribbean. May 1984.

2. Annual Action, Budget Submission and Regional Development Strategy Statement Revision FY 87-88. United States Agency for International Development, Regional Development Office/Caribbean. June 1984.

3. Action Plan FY 88-89. United States Agency for International Development, Regional Development Office/Caribbean.

4. Annual Action Plan FY 90-91. United States Agency for International Development, Regional Development Office/Caribbean. April 25. 1989.

5. Annual Action Plan FY 91 -92 United States Agency for international Development, Regional Development Office/Caribbean. February 19, 1990.

6. Annual Action Plan FY 92 -93. United States Agency for International Development, Regional Development Office/Caribbean. January, 1991.

7. Annual Action Plan FY 94-95. United States Agency for International Development, Regional Development Office/Caribbean. June 17, 1993.

8. Annual Action Plan FY 95 - 96. United States Agency for International Development, Regional Development Office/Caribbean, June 17, 1993.

9. Program and Activities For The Eastern Caribbean. United States Agency for International Development, Regional Development Office/Caribbean. October 4, 1995.

II. Strategy Statements

10. Country Development Strategy Statement FY 82. United States Agency for International Development, Washington DC. January 1980.

11. Country Development Strategy Statement, Grenada 1985 - 1990. United States Agency for International Development, Washington DC. October 1984.

12. Country Development Strategy Statement FY 83. United States Agency for International Development, Washington DC. February, 1981.

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Annex 4

Health Portfolio Analysis

This appendix to the *USAID Economic Assistance to the Eastern Caribbean, 1978 - 1994 Report,* provides a comprehensive examination of the Regional Development Office for the Caribbean's **Health and Population** portfolio. In June, 1995, RDO/C commissioned Datex, Inc. to complete a two-phased assessment of the impact of USAID's assistance to the region. The Mission subsequently expanded the scope of the Phase I effort to allow the document to be circulated prior to the closing of the Mission in June, 1996. To the degree that time and resources permitted, many features of the planned Phase II were incorporated in the Phase I effort. As a result, Datex was able to complete this review of the **Health and Population** sector, the highlights of which have been incorporated into the main body of the Report.

Health Portfolio Analysis

Assessment of USAID Activities in the Eastern Caribbean, 1978–1994

Barbara Rossmiller

Overview

This appendix to the *Retrospective of USAID Economic Assistance to the Eastern Caribbean, 1978 - 1994,* examines the Regional Development Office for the Caribbean's **Health and Population** portfolio. It is consistent with and expands upon the information contained in the main body of the report. As with the main report, we have focussed on the six Organization of Eastern Caribbean States (OECS) countries: **Antigua & Barbuda, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent.**

Health and Population was the smallest of the five core sectors implemented by RDO/C over the life of its program. With expenditures of approximately $36 million, the health program tended to be dwarfed in size by the core portfolios of **Infrastructure ($194M), Private Sector ($170M), Agriculture ($113M), and Education/Human Resources Development ($63M)**. However, in terms of impact on overall program success, the health sector more than carried its own weight. Expending less than 6 percent of RDO/C's resources, the program was extremely efficient in helping the region improve its overall health and social well being.

There are several factors which helped contribute to its success:

- **Throughout the period, the health and population program remained highly consistent with RDO/C's strategies, objectives, and action plans.** The Mission looked at health issues not only in terms of their potential impact on the health of the people, but also in terms of their potential impact and relationship to other key focus areas, such as economic growth, tourism, and infrastructure.

- **The governments of the Eastern Caribbean played a key role in the success of the portfolio.** There was almost uniform support among the governments for the primary health objectives RDO/C was attempting to achieve. This fostered cooperation and collaboration during design and implementation of the projects.

- **Most health and population projects incorporated activities which were multi-functional and crossed other important sectors.** These projects had components which focussed on environment, human resources development, infrastructure, institutional and financial strengthening, and policy, in addition to serving the health needs of the region.

Several valuable lessons were learned through the implementation of the health and population program. These lessons apply not only to ongoing health activities in the Eastern Caribbean, but also offer insight for development activities beyond the health sector, both in the region and throughout the world.

- **Health problems and issues very rarely develop in isolation.** Many interrelated factors contributed to high fertility rates, high communicable disease prevalence, poor infant mortality and child survival rates, insufficient health management and financial systems, and other related health issues being experienced throughout the region in the 1970s.

These problems were caused by a combination of shortfalls in infrastructure, human and economic resources, potable water supplies, water treatment facilities, public education and outreach, and qualified and well trained health care providers.

- **Solution of health problems require a multi-faceted approach.** RDO/C's health projects reflected this reality. In addition to basic health care and family planning, they contained components which addressed other sectors such as infrastructure (repair and construction of health care facilities), and human resources development (extensive technical training for health care providers, administrators, and managers).

- **Regional institutions can be an efficient and affordable solution for program implementation.** The six OECS countries shared similar social and political circumstances, and resultant health issues. RDO/C channeled its support through many regional institutions. Some were created from USAID assistance to meet program needs. These institutions countered the limited resource bases of the individual islands and the limited economies of scale to address common problems and goals.

- **Institutionalization of strong management, administrative, and financial management skills is necessary to maintain the successes achieved by the health portfolio.** Without qualified managers and administrators, and without competent and effective systems, the operating burden of quality health care is too high to be supported by the OECS countries. Institutionalization of the requisite skills and systems ensures that the public and private sector can both continue to manage efficient and cost effective programs, and reduce and/or eliminate the need for costly outside assistance.

This appendix looks at the major health and population issues facing the region and how USAID addressed them. In so doing, we examine the sector in terms of its goals, priorities, strategies, and impact, and the alignment of these elements with overall RDO/C objectives and results. Like the main body of the report, we have structured our analysis to address each of the three phases of the Mission's program as it evolved over time.

I. Introduction

RDO/C formally began assistance to the Organization of Eastern Caribbean States (OECS) in 1978. The six OECS countries share many common underlying social and economic conditions. The islands share a common political history and geographic similarities. Their resource base is limited, due in part to their size, geographic isolation, and under-development from colonization. The withdrawal of colonial rule in the region left a severe shortage of trained managers and high level officials throughout the public and private sector. This shortfall was exacerbated by limited health management, administrative, and financial systems left in place after independence.

High fertility rates and population growth were overburdening this already limited resource base. There was a pervasive lack of access to quality health services throughout the islands and a lack of potable water was creating communicable disease problems. Finally, most water treatment and sewage disposal systems were insufficient or non-existent.

The governments of the region thus faced many common challenges and shared many priorities. The region as a whole had, and still has, a high dependence on tourism. There were, and remain, many cultural, economic, and social ties within the OECS countries which facilitated the use of a regional approach for addressing the region's problems.

It is significant to note that almost all of the OECS governments placed a high priority on health care with relatively large budget allocations to health services. The island governments were in concert with RDO/C about the nature of the health problems faced by their countries, and the need for action. They too realized the need to limit population growth and improve their environmental health and infrastructure.

It was jointly understood that the health issues and problems faced by the Eastern Caribbean countries have impact beyond the health sector. The OECS governments and RDO/C used this knowledge in their programming and strategy-setting. The existing health factors were having a negative effect on economic variables at many levels. At the most basic level, an unhealthy population is not productive. High population growth with a limited resource base stifles economic growth and depletes what few resources a country has. Unpotable water spreads disease, not only among the local population, but also among tourists. And certainly, poor sewage treatment and disposal can also negatively affect tourism.

II. Health Portfolio Overview

The RDO/C health portfolio was characterized by its consistent adherence to the stated goals and strategic objectives of the regional office. RDO/C allocated only around five percent of its budget to the health and population sector, approximately $36 million from 1978-1995. Nevertheless, this level of funding appears to have been appropriate when the needs of the region and the amount of health funding available from other sources are taken into consideration. First, the region had the advantage of starting from a higher base level of general health than many developing countries. And second, other priority sectors, such as infrastructure and economic development, had much higher ticket prices.

The RDO/C health portfolio was characterized by its consistent adherence to the stated goals and strategic objectives of the regional office. It maintained a focus on the priority health issues for the OECS, and worked in close concert with both regional institutions and other donors, as well as the OECS governments themselves. There was a strong emphasis placed on sustainability and impact beyond project assistance. One of the most unique elements of the portfolio was that linkages were established from the very beginning among the health projects, the alleviation of certain health problems, and the impact this would have on other sectors. This was not a common development trend at the time, and it served to underlay the importance of the health work, despite its small budget.

III. Strategic Objectives of the Health Portfolio

As discussed in previous sections, RDO/C assistance can be grouped into three phases, each with distinct, though related or evolving, strategic objectives. The strategic objectives for the health sector were derived from these. Phase I encompassed the years 1978 - 1983. The overall strategy was to provide resources:

a) to strengthen regional cooperation and the capacity to meet basic human needs; and
b) to stimulate equitable economic recovery and growth.

Phase II covered the period from 1984 - 1991. The overall strategy throughout this time was to combine stabilization measures with structural adjustment initiatives to promote export-led, production-based, employment generating private sector-led development. The goal was for economic growth, self-reliance, and the efficient utilization of human and natural resources.

Phase III was from 1992 - 1994. The strategy for Phase III was to support the OECS region's transition to a more competitive world trade environment. The priority was to help the region strengthen its private sector, promote exports and tourism earnings, and improve educational opportunities.

The health sector stayed consistent with overall RDO/C strategic objectives throughout the period. There were very few "rogue" projects, or seemingly random initiatives that did not fit within those priorities and focus areas. Highlighted below are the Mission's key themes and focus during each phase together with a discussion of the role played by the health sector in furthering these important objectives.

A. Phase I

Focus for Phase I:
Basic human needs
Objective: Provide resources to strengthen regional cooperation and the capacity to meet basic human needs.

The health portfolio in Phase I focussed on meeting "basic human needs". As a result of the underlying health factors discussed above, the RDO/C health program addressed population and family planning, the management of health delivery systems (through institutional strengthening, management and technical training), and environmental health. The environmental health work was undertaken through infrastructure activities, mostly in rural water supply and waste disposal systems.

B. Phase II

Focus for Phase II:
Organizational development & financial strengthening
Priority health issues
Objective: Promote economic growth, self-reliance, and efficient utilization of human and natural resources. Enhance professional management capabilities and reduce the burden of government on the private sector.

The health portfolio in Phase II continued to address some of the remaining major health issues from Phase I, such as high fertility rates. Although these fertility rates had begun to decline they were still at levels high enough to exceed the local resource base. Another major issue during Phase II was the high level of government expenditures on health. Health budgets make up approximately ten percent of the national budget in OECS countries. This leaves little room for additional increases to meet current or emerging health needs.

The strategy and objectives developed for Phase II appropriately targeted these issues. One of the program's goals was to improve the organizational effectiveness and financial strengthening of services for more efficient use of existing health care. The program also targeted priority health issues including family planning, AIDS, and drug abuse. During Phase II, the majority of health funding during this period went to family planning programs and human resource and institutional development.

C. Phase III

Focus for Phase III:
Health policy & management strengthening
Priority health issues
Objective: Help the region strengthen its private sector, promote exports and tourism earnings, and improve educational opportunities.

Phase III appears on the surface to be an anomaly as far as the consistency and conformance with the overall RDO/C objectives is concerned. However, the underlying assumption remained that economic growth is not possible without a healthy population. The projects continued to focus on the region's priority health areas, such as AIDS and drug abuse. A *Health Care Policy Planning and Management Project* continued to focus on improving health care services and their policy climate in both the public and private sectors.

IV. Assessment of the Health Portfolio

A. Phase I

Health projects in Phase I emphasized meeting "basic human needs". Although the region had a relatively high level of general health, major health issues were prevalent. Crucial areas of concern were *access to quality health services, population growth, and environmental health*. The Mission's objectives during this phase were to:

- Improve the management of health delivery systems;
- Establish better communicable disease control;
- Upgrade environmental health (specifically in the areas of rural water supply and waste disposal systems);
- Work with existing programs to complement and collaborate with other donor activities.

Listed in the box are the major health and population projects implemented during Phase I.

Phase I Health Project Portfolio

- Basic Health Management Training
- Caribbean Regional Nutrition
- Epidemiology Survey and Training
- Caribbean Family Planning Affiliation
- Health Manpower Planning
- Health Manpower Development
- Inter Island Eye Care Services.

Health care management was addressed in almost every project in the program. After the end of colonial rule, there were very few well trained and experienced people available to manage and administer health care services. In order for the region to effectively provide high quality health care, the capabilities of managers, and management and financial systems had to be improved. Extensive training and human resources development activity took place to rectify this shortfall.

Population growth problems were addressed by the *Caribbean Family Planning Affiliation (CFPA)* which was established with USAID funds. By the end of Phase I, fertility rates had begun to decline noticeably.

Infrastructure projects during Phase I included components to build and repair health clinics. The main emphasis, however, was on establishing potable water supplies for the islands and on developing good waste disposal systems. These efforts were effective, and by the start of Phase II, the **environmental health** problems were no longer identified as major health issues in the region.

RDO/C's program was developed with a strong foundation that stemmed from an accurate and appropriate identification of the priority health issues to be addressed. Resources were then concentrated in those areas for maximum effect. RDO/C also examined the activities of other donors, and worked with them to coordinate and collaborate on their own program.

As with the other core portfolios, much of the assistance in this sector was channeled through regional institutions. This helped mitigate the limits of each individual island in terms of resources, expertise, shared knowledge, and learning. If an adequate regional institution did not exist to target for assistance, some were created, such as the *Caribbean Family Planning Affiliation*. This organization is still active today and working with private sector organizations and government bodies throughout the OECS countries.

B. Phase II: 1984 - 1991

Two of RDO/C's strategic objectives for Phase II had a strong influence on the direction of the health sector. The first was to enhance professional management capabilities and reduce the burden of government on the private sector. The second was to promote economic growth, self-reliance, and efficient utilization of human and natural resources. In support of these objectives the health strategy was:

- to improve the organizational effectiveness and financial strengthening of services for more efficient use of health care resources; and
- to target priority health issues including AIDS, family planning and drug abuse.

At the start of Phase II, fertility rates remained a concern. AIDS and drug abuse were also developing as health issues. Although fertility rates were noticeably declining, they were still high enough to continue straining the local resource base. To address this problem, RDO/C continued to fund family planning projects. AIDS and drug abuse were placed on the agenda, but did not yet warrant the increased attention they were to receive in Phase III.

Institutional strengthening of health care providers took on increasing importance. As discussed above, the OECS governments were spending relatively large percentages of their budgets on health. This left very little room to expand public sector health funding. A major goal was thus to make public sector health care delivery more efficient and cost effective. Private sector health care delivery, services, and management were other options that were explored to reduce the burden on the government.

Phase II Health Project Portfolio

- Population and Development
- Health Sector Resource Management
- Regional Pharmaceutical Management
- Privatization of Family Planning

- Family Planning IEC OPG
- Caribbean Eye Care OPG
- Grenada Blindness Prevention
- Grenada Immediate Health Care

The text box at the right depicts the major health projects implemented during Phase II. Nearly all of the projects can easily be placed within the context of the strategic objectives. This consistency and strategic vision remains a reason for the overall success of the portfolio.

The following section looks at two specific RDO/C health projects. The *Population and Development Project* and the *Regional Pharmaceutical Management Project* were both effective and successful projects that furthered the Mission's overall and sector-specific strategic objectives. Both of these projects also provide several lessons learned applicable throughout RDO/C's portfolio.

Population and Development Project

The project's goal was to bring population and island resources into better balance in the OECS by reducing the birth rate. The *Population and Development Project* attempted to revitalize regional and national demographic and medical policies as the outcome of increased awareness of population problems. The project sought to increase family planning services through the public, private, and commercial sectors. This project represented the Mission's major family planning initiative for Phase II.

The project ran from 1982 to 1992. Although the project officially began during Phase I, the bulk of the project was implemented during Phase II, and it was developed in light of these evolving strategic objectives and priorities. Four separate components were developed:

- Regional Training Programs;
- Management Assistance;
- Private Sector Programs; and
- Information, Education & Communication (IEC).

Funding for the life of project was $7.8 million. The project was implemented primarily by the International Planned Parenthood Federation (IPPF) and the Caribbean Family Planning Affiliation (CFPA), with some technical assistance provided by a U.S.-based consulting firm and a U.S. non-governmental organization (NGO).

Major Accomplishments

The average fertility rate for the region was reduced by half by the end of the project.
The *Population and Development Project* achieved several notable accomplishments. By the end of the project, the average fertility rate of the region had been cut in half. Contraceptive prevalence rates in the regions increased from an average of 31-40 percent in 1980 to 57 percent in 1991.

The project was well known and well regarded throughout the region. The positive profile resulting from the high quality IEC materials and the training provided added to the overall success of the project activities. Extensive training of health care providers at all levels of seniority and management took place. Family planning services became incorporated into government clinics with maternal and child health services. Infrastructure was also not ignored, and there were repairs and upgrades to the equipment and the facilities of over fifty public sector clinics.

Main Reasons for Project Success

The quality of the training provided was very high, and it addressed relevant and timely subjects in service delivery and management. Several regional institutions were used for implementation. CARICOM supported the policy aspects, and the Caribbean Family Planning Association was responsible for service delivery, as was the International Planned Parenthood Federation. This combined a lot of established resources and knowledge of the area to strengthen the existing service delivery. Close collaboration among project participants, including the OECS governments, also significantly contributed to project success. OECS government participation included not only the Ministries of Health, but other ministries as well, acknowledging the relevance of health projects to many facets of a society.

Regional Pharmaceuticals Management Project

The *Regional Pharmaceuticals Management Project* was designed to help the OECS countries establish a pooled procurement system for pharmaceuticals and to improve in-country pharmaceutical supply management through the creation of the *Eastern Caribbean Drug Service (ECDS)*. The objectives were to establish a system for coordinating drug needs and undertaking pooled tendering, contracting, and procurement of drugs, and to strengthen pharmaceutical management in participating countries. This was a five year project, from 1985 - 1990, funded at $3.5 million. The project funding was given to the OECS for implementation, who also subcontracted with a U.S.- based consulting firm.

Major Accomplishments

Over the course of the project alone, the ECDS reduced the cost of pharmaceuticals to over 40% of previous levels. Furthermore, the ECDS is fully sustainable.

- This project is a prime example of the practical benefits of regional integration, and strong management systems.

This project is a prime example of the practical benefits of regional integration. Through this project a new regional institution was successfully established. The Eastern Caribbean Drug Service (ECDS) performed international drug tendering and procurement for all of the OECS countries. The ECDS is now fully sustainable. It has strong management systems and financial viability, with a proven capability to manage internationally competitive drug tendering. The ECDS remains viable and strong, well after project funding was completed. ***Over the course of the project, the Eastern Caribbean Drug Service was able to reduce the cost of pharmaceuticals to 40 percent of previous levels, providing substantial unit cost savings to the governments.*** The project also significantly improved country-level inventory control and procurement management through its work with each country's Central Medical Stores (CMSs).

Main Reasons for Project Success

The regional approach to reducing the high costs of individual country procurement of pharmaceuticals was an effective way to address the inefficiencies and non-competitive nature of the small scale individual island needs. There was high quality and targeted training at the Drug Service and the Central Medical Stores. An appropriate management information system was instituted that was designed to meet the unique needs of the organization, replacing an inadequate generic system. Furthermore, this system was institutionalized through extensive technical training of the ECDS staff. This and many other improvements in pharmaceutical services, management, and procurement practices implemented by the project were institutionalized at the country and regional level.

C. Phase III

The Mission's strategic objectives for Phase III were fully focussed on broadly based sustainable economic growth, not on specific health needs. However, while the RDO/C strategy was rooted in the private sector and economic areas, the underlying assumption remained that economic growth is not possible without a healthy population. The burdens of extensive health care needs of the people are many, from medical care costs, lost inputs when people are unable to work, and ever-increasing costs to feed a rapidly growing population. The governments' economic well-being is further linked to health funding that is efficient and not a drain on their economies. Thus, even though most other programs were being cut, the health sector was able to maintain certain high profile projects.

Phase III Health Project Portfolio

- AIDS Communication and Technical Services
- Health Care Policy Planning and Management
- Drug Abuse Prevention and Education

The projects continued to focus on the region's priority health concerns. The program consisted of the following three projects shown in the box to the right.

The *AIDS Communication and Technical Services Project* achieved an awareness level above 75 percent among the HIV/AIDS and other high risk populations. The *Drug Abuse Prevention Project* piloted a regional approach to drug abuse prevention, and a large number of small grants were issued to innovative community-based programs. The *Health Care Policy Planning and Management Project* continued RDO/C's efforts to institutionalize strong health care policies and efficient and effective management systems.

V. Overall Impact and Success

The RDO/C health and population program as a whole was an unmitigated success. While some projects were not as effective as others, many of the health projects were singularly successful and achieved some remarkable impact. Their effect is particularly impressive given the relatively small amount of funding devoted to this sector.

- Throughout Phases I and II, the overall fertility rates for the region were cut in half.
- The fully self-sustaining Eastern Caribbean Drug Service (ECDS) was established. This regional institution has reduced pharmaceutical costs to approximately 40 percent of original levels. The ECDS continues to provide affordable, quality pharmaceuticals for the OECS, several years beyond the end of project assistance.
- Family planning and reproductive health strategies are explicit components of most OECS government health policies.
- The health services management and financial management capability of the public and private sector has been significantly improved due to a focussed resource development and improvement strategy.

VI. Lessons Learned

Major Health Program Lessons Learned
Important Factors in Program Success:

- Strong regional emphasis
- Program developed in conformity with overall RDO/C strategy and goals
- Focus on institutionalization of skills and management capability
- Government support of program goals and objectives
- Cross-sectoral programs - projects developed to maximize impact and activities across sectors

There are many reasons why the health and population portfolio was successful. First, there was a strong regional emphasis throughout. The programs were developed in direct cooperation and collaboration with regional institutions, who worked with local organizations. In addition, they were often implemented by regional institutions, either preexisting or created by a project (such as the ECDS and CFPA). This meant that there was a strong sense of ownership of the projects by the people most affected. Second, there was almost universal government support of the portfolio goals and objectives, some implicit and some explicit.

Third, USAID worked in cooperation and collaboration with other donors. This enabled all of the active donors to combine the best of their resources and to allocate funding and technical assistance in the most appropriate way possible.

A final significant element--often under-emphasized--is that many of the projects had a multi-sector emphasis. Not only were the goals and objectives directly relevant to and linked to their impact on other sectors, but the projects often had components that would apply to other sectors. For example, the environmental health activities strengthened the local infrastructure to better meet and improve basic health needs. But these activities also impacted tourism and the earning ability of the populace.

Among the many lessons learned that can be drawn from the portfolio's success, the following are most significant:

1. **Regional institutions can be an efficient and effective mechanism for both design and implementation, when there are shared issues and underlying factors.** For the OECS, channeling resources through regional institutions was a good way to counter a limited resource base, and to address common problems and goals. Regional institutions such as the Eastern Caribbean Drug Service have been able to relieve some of the health care burden of the local governments. However, it is significant that for the health and population sector there were common goals, priorities, and strategies. While regional institutions are not the answer to every situation they presented an effective and strong planning and implementation option to the OECS. These institutions should continue to be strengthened and utilized to the greatest practicable extent.

2. **Government cooperation and agreement with the goals and outcomes of the USAID health portfolio was an important factor in the success of the programs.** Governments should continue to be encouraged to place high priority on health care issues, including widespread access to quality health care delivery, low fertility rates, AIDS awareness and prevention, and drug abuse prevention. To maintain this momentum, health portfolios should continue to support institutional and human resource strengthening of government health care personnel at all levels. Efforts to strengthen and/or develop explicit health policies and priorities within the OECS government should continue.

3. **Institutionalization of requisite management and financial skills in both the public and private sectors is necessary to maintain current successes and to achieve sustainability.** A lack of qualified managers, administrators, and effective operating systems greatly hinder the quality and availability of services. With institutionalization of the skills and systems, service delivery becomes more efficient, and reduces or eliminates the need for outside assistance.

4. **The clear linkages between the health care program and other sectors created a broad base of support for the programs.** The cross-cutting impacts and benefits ensured that the programs remained important. By establishing this link, other resources and funds that might not be available otherwise can be accessed. The OECS should continue to develop their health activities in the broader context of economic impact, infrastructure, and environmental concerns.

The experiences of the RDO/C health sector thus provide some interesting lessons to ongoing and future activities. We hope that the remaining donors in the OECS region will take what they can from the observations and lessons above. The health portfolio's successful implementation can also serve as an example for similar programs around the world.

Annex 5

Selected Text of the Evaluation of the Small Enterprise Assistance Project

Project No 538 - 0133

Prepared on Behalf of: DATEX Inc.
For: USAID's Regional Development Office/Caribbean

Prepared By: Michael V. Julien, *Management Consultant*

September 8, 1995

Executive Summary

Purpose. The purpose of this report is to provide USAID/RCO/C with a final evaluation of the effectiveness, impact and sustainability of the East Caribbean Organization of Development Foundations (ECODEF) and the National Development Foundations (NDFs) which benefitted from financial support under the Small Enterprise Assistance Project. The assessment was commissioned by DATEX Inc. as a 15-day assignment as part of its Phase I evaluation of RDO/C programs in the Caribbean.

Approach. The consultant's approach consisted of inception and follow-up meetings with RDO/C senior personnel; reviews of project documents; visits to four of eight eligible National Development Foundations and interviews with ECODEF, NDF and former SEAP staff.

Project Description. The goal of the Small Enterprise Assistance Project was to increase employment, income, productivity, and economic growth in the Eastern Caribbean by assisting in the development of privately-owned enterprises by a) supporting NDFs and their micro enterprise activities; b) co-ordinating technical assistance and training to SMEs; and c) funding the activities of a regional co-ordinating unit - whose functions were subsequently taken over by ECODEF.

Findings. Overall, RDO/C assistance to ECODEF and the NDFs has had a noticeable and positive impact on micro enterprise development in the Eastern Caribbean. Specifically, we found that:

- ECODEF and the NDFs had achieved the project purpose of increasing the efficiency of micro and small and medium-scale enterprises to produce and sell goods and services.
- The NDFs major area of success was in delivering credit, technical assistance and training to the micro enterprise sector. Entrepreneurs in the Service Sector benefitted the most from SEAP-funded activities.
- SEAP was one of RDO/C's better-designed projects, partly because of the high degree of involvement and "ownership" of the concept by the NDFs while the project was being formulated.

- Although SEAP's impact was positive, we could not quantify its effect on employment, income, productivity and economic growth at the macro-economic level because of the lack of baseline data and comparative information on a country-by-country basis.

- *The Project's* demonstration effect *was its most notable success indicator. The NDFs have proven that SME and micro-enterprise financing is profitable and no less risky that conventional bank loans to larger businesses. Commercial banks, noticeably risk-averse prior to the SEAP-funded NDF program, are now actively encouraging small businesses to take out loans for entrepreneurial activities.*

- SEAP's institutional development support program served to upgrade the operational capacity of the NDFs. Four of the eight Foundations have the organisational capabilities needed to facilitate their institutional and financial sustainability.

- ECODEF performed creditably in delivering micro enterprise resources and institutional support to the NDFs but was less successful in its efforts to a) strengthen the four weaker NDFs and b) facilitate SME as compare to micro enterprise development.

- The USAID Cooperative Grant Agreement with ECODEF included a number of performance requirements for NDF access to project funds. However, although the NDFs own ECODEF, they failed to reconcile ECODEF's underlying decision-making authority over the utilization of Project funds. This led to increasing conflicts between the NDFs and ECODEF's Secretariat at the Executive Director/operational level.

- Neither ECODEF nor the NDFs were financially sustainable by the PACD. The emphasis on sustainability came too late in the project cycle and the NDFs "grant culture" had become a major inhibitor to more commercially-oriented strategies for survival.

Lessons Learned. Our assessment of SEAP offers lessons learned about project design, implementation, selective approaches to sustainability and key indicators of success for micro enterprise programs:

- Project "ownership" by implementing agencies is one of the most important prerequisites for successful project design and implementation.

- The pursuit of organisational and institutional sustainability often changes the shape and focus of development programs to the point where project/program objectives are in direct conflict with the very survival of the agencies selected to implement those programs.

- Grant-funded programs inadvertently create an executive management culture of donor dependency which can become so ingrained that it eventually emerges as a major impediment to the commercially-oriented initiatives needed to ensure survival after grant funding expires.

- Changing the strategic thinking of the organisations that benefit from donor-funded projects is probably the most critical issue which micro enterprise (grant) projects should address to ensure the successful achievement of sustainability objectives.

- It is far more important to monitor and assess the extent to which project activities have led to or influenced permanent changes in private sector initiatives of micro enterprise activities since universal adoption of new concepts - at the country level - is probably the most important indicator of (sustainable) project success.

Findings and Conclusions

A. Review of Prior Evaluations

A number of evaluations were carried out by RDO/C on SEAP and on individual NDFs since the inception of the Mission's private sector program. Between 1983 and 1989 RDO/C commissioned two "cluster" evaluations on its private sector projects. Collective as well as individual NDF impact assessments were also carried on the eight NDF loan programs.

The cluster evaluations suggested a number of improvements in implementation systems but concluded that the Foundations would be only partially sustainable without development funding. Most of the studies concluded that the NDF loan programs were having a positive effect on employment creation as well as income generation. However, there was a similar consensus that the SME and micro enterprise sectors aggregate contribution to economic growth would be always confined by the investment limitations and scale of operations of its entrepreneurial base.

B. Project Design and Implementation

Interviews with the former RCU Regional Coordinator, the acting Executive Director of ECODEF and the Executive Directors of four NDFs revealed that there was a high level of participation by the Foundations in RDO/C project design. For example the NDFs proposed minimum performance standards for access to grant funds, suggested key impact indicators, identified critical project components and established their own loan, technical assistance and training targets.

With the exception of Montserrat which was formed after SEAP was launched, there was a high consciousness of the need for "ownership" of the project by the recipient organizations at an early stage of the design process. Thus, the Foundations had strong reservations about using CAIC as the SEAP micro enterprise project "center". Another reason was that CAIC was perceived as a big business "club" with no background or experience in micro sector development.

Despite this reluctance the project was channeled through the Caribbean Association because there was no other suitable regional mechanism in place at the time. Also, RDO/C and CAIC wanted to consolidate private sector linkages, advocacy and representation because those initiatives were at a relatively nascent stage at both the regional and national levels. It is important to point out that ECODEF was created one year after SEAP was started and therefore was not an alternative organization for channeling project funds when the project was being designed.

Some project elements were dropped because they were impractical, had limited scope for development or were not a priority to RCU and/or the NDFs. These included the SME Pilot Matching Fund and the SBIC Pilot Project Investments facility. Other elements, such as IVS, PADF assistance to the NDFs and the IESC micro enterprise support program were not renewed after those budgets has been utilized. The reason: RCU had become proficient at providing similar technical assistance and training services more efficiently and at lower costs than the specialized volunteer programs. Overall, the project was well designed and endorsed by national SME agencies, by the financial sector, and by the fledgling micro enterprise beneficiaries on each island.

C. NDF Performance

We reviewed NDF performance in the following key areas: 1) attainment of goals, purpose and operational objectives, 2) compliance with the terms of the cooperative agreement; 3) accomplishments and deficiencies under the Micro Credit Support Program, the SME Sector Support Program, and the Institutional Development Support Program; and 4) financial performance/status.

i. Attainment of Goals and Purpose

SEAP's main goal was to increase employment, income, productivity, and economic growth in the eastern Caribbean by assisting in the development of privately owned (small and micro) productive enterprises. The data provided by the NDFs for 1990 -1994 indicates that SEAP- funded activities served to support the creation and expansion of 5,000 micro enterprises and 10,000 jobs during that period. However, we were unable to draw conclusions about the impact of the Project since the data was compiled without relative comparisons to the total size of the micro enterprise and SME sectors and the overall level of employment in those sectors in the eight participating countries.

No data had been collated on the amount of income generated from SEAP -assisted clients; on improvements in productivity as a result of training and TA delivered under the project; on the Project's overall effect on economic growth; or on the extent to which the Project served to meet basic human needs. Consequently we were unable to reach definitive conclusions about SEAP's effect on private sector growth or its macroeconomic impact during its eight-year existence.

We found that SEAP's "*demonstration effect*" was overwhelmingly successful: In particular, the strategy of appointing senior decision-making makers from commercial banks, large private sector companies and service sector firms to the NDF Boards of Directors has led to a broad-based commitment by banks, by conventional private sector organizations and by Governments to support micro enterprise development.

At the start of the project in the mid-eighties, commercial banks were endorsing SEAP and NDF activities because that endorsement allowed them to legitimize their <u>avoidance</u> of SME and micro enterprise lending through their own institutions. However, SEAP has shown that properly packaged SME and micro enterprise loan programs are financial viable and often no more risky than commercial bank loans to larger businesses.

By 1995, commercial banks - through direct marketing, special loan programs and advertisement - were openly soliciting SME business and competing with the NDFs for the Foundations' best clients. Still, it is important to make the distinction that banks have moved from avoiding micro enterprise lending altogether to financing those micro enterprises <u>with a proven track record</u>. In this regard the NDFs are still the leading provider of credit for <u>first-time</u> entrepreneurs.

Likewise, some island governments are emphasizing small enterprise expansion in their five-year economic development plans. They are now receptive to NDF proposals to access institutional Funds like the National Insurance Scheme (NIS), which, until recently, were invested exclusively in Government securities.
Finally, our review of surveys carried out as part of the second RDO/C private sector cluster evaluation in 1989 confirmed that the NDFs did achieve the project purpose of *"increasing the efficiency of micro, small and medium-scale enterprises to produce and sell their goods and services"*.

ii. Attainment of Operational Objectives

In general, SEAP met its operational objectives to a) assist micro enterprises through NDFs and b) coordinate the provision of technical and training assistance to entrepreneurs and supporting institutions. It had less success in supporting micro enterprise development through WID or other NGOs partly because of the high degree of project "ownership" by the RCU and the Foundations. Thus, the Foundations were inclined to address their

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own concerns and constraints before considering support to "outside" organizations. The NDFs met a number of quantitative objectives agreed-to in the ECODEF Cooperative Agreement (Table III). The Foundations:

- Exceeded the news loan target of 2000 new loans over two years;
- Realized 73% of the target set for assisting women-run businesses;
- Reached 81% of the goal for training 1800 entrepreneurs; and
- Attained 80% of the target for training female entrepreneurs.

Table III

SEAP Output Targets and Accomplishments For NDFs

Performance Indicator	Targets 03/92-02/93	Achievements 03/92-02/93	Targets 03/93-02/95	Achievements 03/93-02/95
Micro enterprises receiving loans	486	978	2,000	2,332
Women-assisted businesses	50%	n/a*	40%	29%
Entrepreneurs Receiving Training	450	n/a*	1,800	1,464
Female Entrepreneurs Trained	50%	n/a*	50%	40%
SMEs Provided with TA	108	114	432	74
Entrepreneurs, Workers Trained	600	744	1,800	1,067

* n/a = Not Available

Sources: Amendment No.18 to CAI Cooperative Agreement, November 1992 and ECODEF Cooperative Agreement, February 1993.

The Foundations did not achieve a similar goal for providing SMEs with technical assistance during the last two years of the project. They delivered only 17% of the 432 targeted interventions because of a late start to that program, poor coordination between national delivery institutions, such as the Chambers of Commerce, appointed to initiate SME TA, and the low standard of NDI submissions for TA under the program (see sub-section 4.3.5 SME Sector Development Program).

Between 1982 and 1994 the eight NDFs disbursed 7,600 loans totaling EC$50 million (US$18.52 million) to small and micro enterprise clients. The Foundations' performance, in terms of number of loan enquiries (10,393), number of loans disbursed (4,987), jobs created (10,094), and value of loans disbursed for 1990-94 (EC$37.5 million) is summarized in Table IV below.

The Table confirms that the majority of loans and the bulk of the investment impact occurred between 1990 and 1994: over those five years the NDFs disbursed about 75% of the their total loans for the 1982 - 1994 thirteen year period.

Most NDF loans were to one and two-person enterprises. Based on the data in Table IV, the average loan size was EC$7,508 (US$2,780) while the investment cost per job created was $3,710 (US$1,374). Nominal interest rates on loans less than 12 months (short term) vary from 13.5% in Antigua to 10 % in Grenada. Long term rates range from 8.5% in St. Kitts to 13% in Barbados while maximum loan size vary from EC$50,000 to $160,000 (for up to five years).

Table IV

NDF Performance Between 1990 - 1994

NDFs	Enquiries	No. Loans	Jobs Gained	Loans EC$
Antigua and Barbuda	1274	543	1130	5,236,271.00
Barbados	1064	277	692	3,741,571.00
Dominica	2280	1064	2345	6,721,042.00
Grenada	1468	473	791	4,154,381.00
Montserrat	566	349	533	3,461,986.00
St.Kitts-Nevis	1165	742	874	5,315,939.00
St. Lucia	1427	950	1924	6,428,511.00
St. Vincent	1149	589	1805	2,385,558.00
Totals	**10,393**	**4987**	**10094**	**37,445,259.00**

Source: ECODEF Statistical Data. 1995

iii. Compliance with the Cooperative Agreement

With the exception of Barbados, the (seven) NDFs complied with the Special Provisions, Substantial Involvement requirements, and Conditionality guidelines established under the RDO/C/ECODEF Grant Agreement. The Mission considered the Conditionality guidelines to be crucial prerequisites for NDF achievement of financial sustainability.

The Foundations adopted guidelines to a) set annual performance targets and carry out market analyses; b) use market-driven interest rates and c) develop and prepare work plans. They ensured that operating costs were less than 50% of loan principal and that default rates (loans in arrears beyond 180 days) did not exceed 7.5% to avoid non-compliance restrictions to Project funds.

The St. Vincent and Barbados NDFs and WID/Barbados were restricted from accessing Project resources because of poor performance. St. Vincent improved operations and became eligible to use SEAP funds in early 1995. After the Barbados organizations failed to contain their credit administration costs within the 50% limit, designated funds were re-allocated to the other NDFs.

iv. The Micro Credit Support Program

In terms of quantitative impact, the micro credit support program was the most successful project component. For the 2-year 1993 to 1995 period, ECODEF allocated 75% of its SEAP US$3,592,871 budget or about $2.7 million to the micro credit programme of which $2 million was designated for NDF loans and $700,000 for ECODEF technical assistance support, training and loan operations. Thus, about 56% of grant resources were utilized for micro sector lending over that 2-year period.

As shown in Table IV the Foundations made 5,000 loans which served to create approximately 10,000 jobs in the eight participating countries between 1990 and 1994. Between a third and a half of the 10,000 jobs were incremental to those created for the micro entrepreneurs themselves, i.e. additional employees hired to work in those micro businesses.

ECODEF estimates that there is an average annual demand for 700 new jobs in each of the seven OECS countries and that the incremental jobs created under the micro credit program were equivalent to 10% of total demand on an annual basis. The NDFs postulate that they serve between 30% - 50% of the small business sector. We could not substantiate that claim given the deficiency of baseline data and dearth of small business statistics on an island-by-island basis.

The Service sector benefitted the most from NDF credit: It accounted for about a third of the NDFs loans and as much as 43% of it technical assistance interventions. This emphasis is a reflection of a) the region's proclivity for import and merchandising/distribution trade, b) the increasing expansion of the tourism sector and the resulting demand for support services and c) the inclination towards developing businesses based on the entrepreneur's personal skills and contacts.

v. The SME Sector Support Program

This program was the least successful of the three SEAP components. It was designed to provide training and technical assistance to small and medium size businesses through National Delivery Institutions (NDIs), consisting of the Chambers of Commerce (CoCs) in six OECS islands, the Small Business Association (SBA) in St. Lucia and RCU in Barbados. The concept ran into implementation problems because of the lackluster commitment by the Chambers and the SBA; their access to similar programs from other agencies; and the fall-off in demand for TA services as the manufacturing sector in the OECS began its decline in the early 1990s.

With the exception of Grenada, NDI responsibility was transferred from the CoCs to the Foundations by 1994 to keep the program operational. However only the Dominica, St.Kitts and St. Lucia NDFs had the capacity to carry out SME training. Those Foundations initiated 80% of the 74 programs launched under ECODEF project administration. This institutional deficiency was the primary reason why the NDFs attained only 17% of the 432 targeted interventions agreed to in the Cooperative Agreement.

In terms of SME technical assistance, the Foundations provided support to 259 persons in 69 companies through 52 interventions under the ECODEF program. The interventions that were undertaken demonstrated the significance, importance and necessity of this service to small Caribbean companies. For instance, the NDFs provided TA to:

- Set up computerized accounting and inventory systems for a ship chandlery, and electrical and building contracting firms in Grenada;
- Evaluate a Solar Water Heater manufacturer's production systems in Dominica;
- Train an Antiguan craftsman to use laser technology engraving equipment;
- Improve productivity of an off-shore garment manufacturer involved in 807 contract work in Montserrat.

Such support helped to upgrade the business operations of a number of SMEs. However, we concluded that the program was only marginally successful for two reasons. First, 5 of the 8 NDFs lacked the capability to provide TA to SMEs. Second, the NDFs were not enthusiastic about helping SMEs because there was limited scope for providing loans to them since the SMEs' financing needs almost always exceeded the Foundations' maximum loan limits.

vi. The Institutional Development Support Program

The primary purpose of this program was to upgrade the institutional capacity of the NDFs to function effectively after SEAP's February 23, 1995 PACD. To this end, the Foundations benefitted from a number of support measures initiated by ECODEF. These included completion of the computerization of the NDFs accounting and loan portfolio systems, recommendations on improving portfolio management, an analysis of the NDFs Loan Portfolio and Financing Needs and evaluations on two poor performers, the St. Vincent and Barbados Foundations.

We reached mixed conclusions about the success and relevancy of the program. On the one hand the NDFs gained from ECODEF's institutional strengthening activities. The range of assistance provided, articulated in the Secretariat's 1995 Terminal Report on SEAP, indicated that the Foundations had improved their systems and technical skills as a result of the program. On the other, we found that the program failed to address critical strategic issues relating to the institutional and financial <u>sustainability</u> of the NDFs. Although SEAP ended in February 1995, the Foundations were still hoping to access concessionary funding from the CDB to replace USAID grant resources.

We noted that the Foundations did not carry out a strategic assessment of their strengths, weaknesses or institutional options and have not come up to alternative approaches to their own survival. For example, the NDFs have not looked at options to merge their functions with those of the local development banks or credit unions and, with the exception of St. Lucia, have not restructured their operations to drastically bring down overhead costs.

From a similar perspective, the NDF emphasis on institutional strengthening implied that the Foundations were still assuming that they would continue to function more or less "as is" and were not rigorously examining others strategies for meeting the needs of the micro enterprise sector.

vii. NDF Financial Performance and Status

The three most successful NDFs - St. Lucia, Dominica and St. Kitts - disbursed 61% of new loans between 1992 and 1994. The eight Foundations total assets grew from EC$21 million in 1992 to $26 million by the end of 1994 and their (loan) fund balances increased by 20% over the same period. As a measure of financial sustainability, the Foundations increased their income: expenditure ratios from 58% in 1992 to 68% in 1994 with Antigua and St. Lucia recording I:E ratios of 98% and 85% respectively in 1994.

The most critical factor which differentiated the successful NDFs from the borderline ones was the caliber of Board members and the quality of senior operations staff. For instance, the NDF Boards in Dominica, and St.Kitts consisted of the top bankers and business persons on those islands.

We observed that the Foundations' net portfolio, at EC$13 million in 1994, was two and half times as high as it was in 1992 and that their debt:equity ratios has improved threefold from 40% in 1992 to 14% in 1994. Those improvements occurred partly as a result of accelerated drawdowns of SEAP program funds and partly as a result of a streamlining of loan disbursements practices. Nonetheless, our analysis of the Foundations' liquid and near cash assets revealed that none of the them are in a position to sustain their loan operations <u>at present disbursements levels</u> for more than 24 months without access to additional resources.

To circumvent future cash flow constraints, four of the eight organizations (Dominica, St.Kitts, Montserrat and St. Lucia) are attempting to access new funds from local institutional sources. St. Kitts, Dominica and St. Lucia have entered into discussions with statutory corporations to access concessionary loan resources from their National Insurance Schemes (NIS). The Montserrat NDF has secured funding from NIS, a local commercial bank (Bank of Montserrat), the telecommunications company (Cable and Wireless), and a private charity based in Costa Rica. At the time of this evaluation it was too early to tell whether those alternatives would fill the void left by SEAP.

According to an ECODEF portfolio analysis commissioned in 1994, the NDFs will need US$4.6 million to maintain operations at current levels for the next five years. Recent ECODEF efforts to secure a comprehensive US$3.3 million package of micro enterprise support from the Caribbean Development Bank (CDB) has reached an impasse over the amount of up-front counterpart funding (US$555,000) which the Bank is requiring the Foundations to contribute to the program.

The Foundations are reluctant to set aside what amounts to 25% - 40% of their cash reserves to access CDB funding. But if the Foundations do not close the CDB deal, it is highly unlikely that they will be able to secure that level of loan capital (US$3.3 million) from local sources. Consequently, by the end of 1996, the NDFs may be forced to scale back their lending activities, TA and training; be more dependent on reflows (loan repayments by borrowers) for future lending; and have to adjust to less than ideal levels of funding at the national level.

D. ECODEF Performance

i. Operational Performance

We reached mixed conclusions about ECODEF's performance during the 2-year grant period. From an operational view point, its role as a facilitator and coordinator of NDF funding and technical support was effectively carried out by the Secretariat's management team. We were particularly impressed with ECODEF's monitoring of NDF performance, its insistence that the Foundations adhere to Conditionality guidelines as criteria for accessing project funding, and its initiatives in preparing and submitting the US$3.3 million proposal for post-SEAP funding to the CDB.

On the downside, there were a number of flaws in ECODEF's approach to institutional and financial sustainability. A basic *faux pas* was the exponential increase in ECODEF staff and budget between 1993 and 1995. ECODEF's operating costs changed substantially as it evolved from a "shell" operation in 1992 to a full-blown LPVO in 1994. Table V below reflects these changes.

Table V

ECODEF Financial Indicators 1991 - 1994 In EC Dollars

Financial Indicator	1991	1992	1993	1994
Revenue: NDF Fees, etc.	35,971.00	20,946.00	91,143.00	68,067.00
Operating Expenses	394,174.00	461,263.00	873,372.00	984,124.00
Reimbursement by Donors	243,123.00	150,484.00	803,227.00	957,612.00
Total Assets	166,044.00	266,436.00	1,500,325.00	482,991.00
Project Funds Available	442,123.00	444,328.00	5,833,916.00	5,453,717.00
Project Funds Utilized	430,594.00	295,631.00	4,499,703.00	5,183,847.00

Source: ECODEF 1994 Annual Report

During that period the Secretariat's staff increased from 5 to 10 employees and its operating costs from EC$461,000 to $984,000 per year. Moreover, ECODEF failed to mobilize additional revenue from its members so that it depended on SEAP for 90% of its operating (financing) requirements.

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ii. Project Management

One reason for the increase in operating costs was RDO/C pre-conditions for ECODEF qualification as an LPVO. These prerequisites required the Secretariat to upgrade and install organizational management and reporting systems necessary for coordinating a USAID project. Some of the additional costs associated with this stipulation were unavoidable. However, it would have been more effective for ECODEF to projectize its LPVO costs.

That approach would have allowed the Secretariat to maintain a lean core staff operation and contain most of USAID's LPVO management requirements within SEAP. Had the NDFs adopted that strategy, ECODEF would have been in a much better position to maintain an operational base after SEAP funding expired, since it would have treated the Project as a discrete one-off activity. Based on our assessment of NDF liquidity we concluded that the Foundations could have readily provided EC$400,000 ($50,000 per year each from the Foundations) to fund a core Secretariat that would have been independent of SEAP support.

Another unexpected outcome of ECODEF's assimilation of SEAP was that the NDF Boards failed to reconcile the Secretariat's apparent decision-making authority over project allocations to the NDFs. This led to repeated conflicts between the Executive Directors (EDs) of the Foundations and the Secretariat: The EDs saw the Secretariat as a clearing house for their activities while ECODEF's *raison d'être* was to ensure that it made commitments and decisions in line with the guidelines and requirements established in its Cooperative Agreement with USAID

ECODEF could have done a better job of strengthening the weaker NDFs in terms of their capacity to access local funding; to pursue strategic opportunities and organizational linkages at the national level; and to upgrade their Training Units. We noted that although training was a major element of the micro credit and SME programs, the Secretariat did not appoint a Training Coordinator but relied primarily on outside experts for delivering specialized assistance to the Foundations.

iii. Graduation and Linkages

The concept of graduating micro enterprise and SME clients to formal business status was promoted by USAID and RCU during the early stages of project implementation. The NDFs decided to drop that strategy because they were reluctant to pass on their best clients to the commercial banks. The NDFs' position was that a graduation policy would be inimical to their own viability and focussed instead on offering repeat loans to their best clients.

The Foundations' decision to obviate risk by retaining those clients led to a number of changes in their loan policies and focus. For example, by 1995 Dominica had increased its maximum loan size from EC$40,000 to $160,000. In some islands, commercial banks have started to openly compete with the NDFs for small business clients above a $20,000 loan threshold. In Dominica, the Royal Bank of Canada is selectively promoting agriculture loan programmes to smallholders for diversification away from banana production. Some NDFs were able to upgrade or "graduate" their own capability to provide training and technical assistance from micro to small clients and were occasionally approached by the commercial banks to provide TA to the banks' client base.

The NDFs maintain informal links with larger private sector businesses some of which have acted as "mentor" firms for upcoming NDF clients. The Foundations have limited financing linkages with commercial or development banks although there was the occasional one-off joint financing deal on larger NDF loans. Co-lending was not exploited to the maximum, partly because the banks were not that enthusiastic about the idea: they were extremely liquid between 1985 and 1992 and therefore preferred to lend their surplus funds to their better SME clients.

Each NDF is a member of the local CoC and there are strong bonds between the Foundations and the Credit Unions in Dominica, St.Kitts and Montserrat. However, access to Credit Union funds is still confined to small commitments because of the risk averse and conservative nature of the Credit Union system.

iv. Institutional and Financial Sustainability

In its terminal report on SEAP, ECODEF conceded that its Secretariat and the NDFs had not met the objectives of institutional and financial sustainability within the project period. ECODEF claimed that USAID had not provided assistance for developing a practical sustainability plan. It also concluded that RDO/C, ECODEF and the Foundations waited too long to address this issue. The report pointed out that donors were now less inclined to support conventional approaches to enterprise development and that the two-year time frame was too short to move the NDFs from a grant to a commercial loan culture.

We concurred with the Secretariat's conclusions about the late emphasis on sustainability and the "grant culture" paradigm. We concluded that SEAP's primary goal after 1992 should have been to get the Foundations to develop practical plans for sustainability based on a) a strategic analysis of their environment and b) opportunities which could have been explored on a country-by-country basis. Furthermore, solutions should have been tailored to serve the needs and circumstances of each NDF.

We also concluded that the sustainability objective would have been better served if SEAP micro credit resources had been provided as a "Matching Fund" as part of the ECODEF Cooperative Agreement. Under such a mechanism, SEAP funds would have been made available on the condition that the NDFs first secure equivalent funding from other sources. This would have been a tangible incentive for the Foundations to make stronger commitments to accessing new lines of credit. Moreover, the Foundations could have used that strategy as an integral part of its negotiations for CDB funding.

ECODEF adopted an "umbrella" approach to sustainability which assumed that the same concept should be adopted for all NDFs and that funding should be centrally tapped from external or development sources. That strategy did not reflect the fact that some NDFs were in a better position, institutionally and financially, to successfully localize their sustainability programs and to pursue appropriate linkages with the financial sector.

In retrospect, it may have been more effective to classify the NDFs into two performance groups; to help each group devise its own sustainability plans; and to establish "entry level" requirements for NDF access to CDB funds on a group or Foundation basis..

v. ECODEF's Organizational and Financial Status

ECODEF's Secretariat has been significantly downsized after SEAP funding expired in February 1995. Between March and August 1995 staffing levels were reduced from ten to three (now a part-time accountant, a secretary and an office assistant). Because of a shortage of funds, key senior positions, such as the acting Executive Director, the Financial Controller and Project Officer, could not be maintained after August 1995.

In mid-August the Secretariat informed the Foundations that it would have to close its doors by the end of September if interim funding was not forthcoming from them. The Secretariat has tried to solicit financial support from an Association of indigenous banks in the region but now lacks the management capability to follow through on that request. The Foundations are considering committing between US$7,000 and $14,000 each ($84,000 - $168,000 per year) to support a small 3-person Secretariat for the next 12 months but are still hoping to use that commitment as a compromise alternative to CDB's $555,000 counterpart funding requirement to access the US$3.3 million loan and TA package.

In summary, ECODEF is on the verge of temporary closure because of protracted delays in accessing new funding after the Project completion date and because the Foundations have failed to make a meaningful financial commitment to its continued existence.

In our opinion, the Secretariat did a commendable job in maintaining the momentum of RCU project implementation, especially in coordinating the delivery of credit, training and TA to the micro sector. It also established and maintained one of the best project monitoring, administrative, and reporting systems for an AID-funded Project in the Eastern Caribbean. It was less successful in its efforts to sustain the SME component of the Project and in its initiatives to get the NDFs to prepare themselves for a more commercial approach to their future survival.

Lessons Learned

This section of our assessment of SEAP offers lessons learned about project design, implementation, selective approaches to sustainability and key factors for success in micro enterprise assistance programs based on the analyses and conclusions in prior section of this report.

1. The high level of participation by the beneficiary Foundations was a key factor underlying SEAP's operational success.

    - **Lesson Learned**: Project "ownership" by implementing agencies is one of the first basic tenets of successful project design.

2. Development priorities, such as the stimulation of micro enterprise development and the broad based provision of investment capital to non-bankable small entrepreneurs, are often superseded by organizational priorities to perform creditably as those programs evolve.

    - **Lesson Learned**: The pursuit of organizational and institutional sustainability often changes the shape and focus of development programs to the point where project/ program objectives are in direct conflict with the very survival of the agencies selected to implement those programs.

3. Initial grant funding of small enterprise programs is critical to the development of an institutional framework for subsequent implementation but can become a major inhibitor to financial sustainability.

    - **Lesson Learned**: Grant-funded micro enterprise programs inadvertently create an executive management culture of donor dependency that can become so ingrained that it eventually emerges as a major impediment to the conception and introduction of commercially-oriented initiatives needed to ensure survival after grant funding expires.

4. The introduction of Special Provisions, Substantial Involvement requirements and Conditionality guidelines were essential preconditions for sound institutional management but should have been complimented

with strategic planning and performance incentive criteria designed to get the Foundations to make stronger commitments to their survival and sustainability.

- **Lesson Learned**: Changing the strategic thinking of the organizations that benefit from donor-funded projects is probably the most critical issue which micro enterprise development projects should address to ensure the successful achievement of sustainability objectives.

5. The use of impact and performance indicators may serve to measure the direct quantitative effects of a development program. Most private enterprise projects however, account for a relatively small proportion of overall private sector activity in many countries.

- **Lesson Learned**: The demonstration effect of private sector projects is often ignored or not assessed by funding agencies. Yet adoption by the wider, "commercial" private sector of concepts conceived under a development program like SEAP will eventually create a far greater sustainable impact on employment, investment and on the evolution of the micro enterprise sector than direct interventions undertaken by the Project itself.

- **Lesson Learned**: It is far more important to monitor and assess the extent to which project activities have led to permanent changes in private sector initiatives since universal adoption (of new concepts) is the most important indicator of (sustainable) project success.